Royal Commission on Renewing and Strengthening Our Place in Canada

Newfoundland and Labrador

Research Volume 1

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Royal Commission on Renewing and Strengthening Our Place in Canada

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 1

June 2003

Foreword

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This volume forms part of a four volume set, containing the research papers and polls contracted by the Royal Commission on Renewing and Strengthening Our Place in Canada. The Commission's main report and a summary report are available at the Office of the Queen's Printer, Confederation Building, St. John's, Newfoundland and Labrador, Canada, A1C 5T4. The summary report is available in English, French, Inuktitut, Innu-aimun, Mi'kmaq and Braille. All of the Commission's published materials, including research papers and polls, are also available at the web site: *www.gov.nl.ca/royalcomm.*

The Commission's Terms of Reference called for a research program to address key issues. The goals of the research program were: (i) to provide information and an independent assessment of key issues in support of the analysis, conclusions and recommendations contained in the final Report; (ii) to generate fresh perspectives and new ideas on critical issues; and (iii) to provide the public with a body of information and analysis of important issues. The nature and extent of the Commission's research program were shaped by the Commission's short mandate of approximately one year.

Most of the research contracted by the Commission consisted of research and analysis papers designed to provide a thematic overview of the issue to be addressed, a review of existing literature, an analysis of the state of knowledge on the issue, conclusions and, where relevant, policy options or recommendations for consideration by the Commission. A smaller number of research projects were more extensive and more original in research scope, including financial and economic analyses, polls and other surveys. In addition, the Commission contracted independent commentaries from a number of authors; these are also included in these collected papers. Most of the externally contracted research was subject to peer review. Since the papers are collected in four volumes, a full list of the 28 published papers and two public opinion polls is contained as an appendix to this volume.

The analyses contained in these published papers remain the responsibility of the authors, and the views expressed do not necessarily reflect those of the Commission.

The Commission expresses thanks to the authors for undertaking their important work in a professional manner, within the constrained time-frames of the Commission's mandate. We wish to acknowledge and thank those persons who provided independent peer review of the research papers. Overall, the research program made an important contribution in shaping the Commission's understanding of the issues and the development of its recommended Pathway to Renewal founded on a new partnership between the federal and provincial governments.

Victor Young, O.C.	Elizabeth M. Davis, RSM	Hon. James Igloliorte
Chair	Commissioner	Commissioner

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 1
Table of Contents

Foreword iii
Notes on Authors vii

Collected papers:

Melvin Baker
    History of Newfoundland and Labrador -Summary Chronology of Events 1
Melvin Baker
    Falling into the Canadian Lap: The Confederation of Newfoundland and Canada, 1945-1949 29
Miriam Wright
    Newfoundland and Labrador History in Canada, 1949-1972 89
Jerry Bannister
    The Politics of Cultural Memory:Themes in the History of Newfoundland and Labrador in Canada, 1972-2003 117
Stephen May
    The Terms of Union: An Analysis of their Current Relevance 157
Maura Hanrahan
    The Lasting Breach: The Omission of Aboriginal People From the Terms of Union Between Newfoundland and Canada and its Ongoing Impacts 195
Joanne Hussey
    The Changing Role of Women in Newfoundland and Labrador 253
Gwynne Dyer
    The Strategic Importance of Newfoundland and Labrador to Canada 285
Ross Reid
    We Can Do Better, We Must Do Better 299
Gerard Blackmore
    Sense of Place: Loss and the Newfoundland and Labrador Spirit 309
Ryan Research and Communications
    Provincial Opinion Study 343
POLLARA
    National Poll - Newfoundland and Labrador's Place in Canada 423

Appendix 501

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Royal Commission on Renewing
and Strengthening Our Place in Canada

History of Newfoundland and Labrador - Summary Chronology of Events

— Melvin Baker

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Pre-1949

c. 7000 B.C.

Stone Age Indians (Maritime Archaic Indians) moved into Labrador from the south shore of the Gulf of St. Lawrence and by 3000 B.C. had moved to the Island of Newfoundland. Based on archaeological evidence, by 1200 B.C. they had disappeared from the Island, but had survived longer in Labrador.

c. 1800 B.C.

Palaeo-eskimos moved into Labrador having crossed to the high Arctic and Greenland from Siberia across the Bering Strait about 2500 B.C.

c. 800 B.C.

Palaeo-eskimos (Groswater Palaeo-eskimos) moved to the Island of Newfoundland.

c. 600 B.C.

Dorset Palaeo-eskimos arrived in Labrador and into Newfoundland about 1.A.D. remaining on the Island until about 800 A.D. when they either moved off the Island or became extinct. By c.1400 A.D. they had left northern Labrador.

c. 1000 A.D.

Viking settlement established at L'Anse aux Meadows; abandoned within a decade of its establishment.

c. 1000 A.D.

Historical and archeological evidence indicates that the Bethouks were already living in Newfoundland at the time that Viking explorers arrived. The Beothuks are considered the aboriginal people of the Island of Newfoundland and were Algonkian-speaking hunter-gatherers. They numbered less than a thousand people at the time of European contact in the 15th century.

c. 13th century

Thule Eskimos (Inuit) moved into Labrador from Greenland.

1497

English explorer, Giovanni Caboto (John Cabot) claimed Newfoundland for England, but the Island remained for over a century as a base for the international European fishery on the Grand Banks.

c. 16th century

Historical evidence suggests that the Mi'kmaq were living in Newfoundland by the 16th century.

Historical and archaeological suggests that the Innu were visiting coastal Labrador from the Quebec-Labrador interior by the 16th century.

1530-1600

Basques whalers from Spain and France established shore-based stations in southern Labrador at Red Bay for the hunting of whales.

1583

Sir Humphrey Gilbert claimed Newfoundland for the English crown. The Island continued to be used by Portuguese, French, Basque and English fishers on the Grand Banks.

1610

John Guy established the first sponsored colony in Newfoundland at Cupids by the London and Bristol Company of England.

1621

Lord Baltimore (Sir George Calvert) established a sponsored colony at Ferryland.

1634

The Western Charter stated that the first fishing captain of a vessel in Newfoundland would be the admiral for the season with responsibility for deciding disputes among themselves and protecting their ships. The fishing admiral for that year had the right to choose the best fishing port to use that year.

c. 1660s

English sponsored colonies abandoned in Newfoundland. Future population growth based on fishers from England and Ireland remaining to work in a resident fishery.

1662

France established a colony at Plaisance (Placentia). Plaisance served as a base for the French fishing fleet, kept an eye on English activity on the Avalon Peninsula and protected French shipping and fishing in the Gulf of St. Lawrence.

1696-97

A French military force led by Pierre Le Moyne d'Iberville from Plaisance captured St. John's and other English settlements on the Avalon Peninsula during the winter of 1696-1697.

1699

King William III Act acknowledged the ownership of existing property in Newfoundland and gave permission for settlements to exist in Newfoundland as long as residents did not interfere with the English migratory fishery.

1713

Under the Treaty of Utrecht, France gave up all claims to Newfoundland but retained fishing rights along the coast from Cape Bonavista north to Point Riche.

1729

Henry Osborn appointed as Newfoundland's first naval governor.

1752

Moravian missionaries arrived in Labrador to minister to the Inuit.

1763

Following the Seven Years' War, France maintained fishing rights in Newfoundland and in the territory of St. Pierre and Miquelon off the south coast of Newfoundland.

1766

Laurence Coughlan arrived in Newfoundland as a preacher for the Society for the Propagation of the Gospel in Foreign Parts. Coughlan was responsible for the introduction of Methodism in Newfoundland.

1771

Moravian missionaries established the community of Nain in northern Labrador.

1774

Under the Quebec Act, Quebec was given jurisdiction of Labrador.

1783

Under the Treaty of Versailles, France received revised fishing rights in Newfoundland from Cape John to Cape Ray, the "French Shore."

1784

England granted religious freedom to Roman Catholics in Newfoundland.

1788

The first smallpox vaccinations were given in North America at Trinity.

1791

The first Supreme Court in Newfoundland was established.

1806

Protestant and Catholic Irish residents established the Benevolent Irish Society at St. John's.

1807

The Royal Gazette was the first newspaper published in Newfoundland.

1809

Labrador was restored to Newfoundland, having been given to Quebec in 1774 under the Quebec Act.

1815

During the period of the French Revolutionary and Napoleonic Wars in Europe from 1793 to 1815, Newfoundland's population increased from 11,382 persons in 1797 to a total of 40,568 in 1815.

1822

William Cormack walked across Newfoundland in search of the Beothuk Indians.

1824

Newfoundland recognized as an official British colony by Imperial legislation.

1829

The last surviving member of the Beothuks, Shanawdithit, died at St. John's.

1832

Newfoundland received Representative Government consisting of an appointed Legislative Council and an elected House of Assembly.

1833

The House of Assembly met for the first time.

1834

The Newfoundland Law Society is formed.

1836

The legislature passed the first Education Act.

1840

J.B. Jukes completed the first geological survey of Newfoundland.

1842

The Newfoundland constitution was suspended and an amalgamated legislature established which remained in place until 1848 when the former constitution was restored.

1846

A fire destroyed much of St. John's. About 2,000 buildings were burnt and about 12,000 people, or 57 per cent of the town's total population, were left homeless.

1850

The construction of the Colonial Building completed and the building opened for the first time.

1855

Responsible Government established consisting of a bicameral legislature: an elected House of Assembly and an appointed Legislative Council.

1864

Newfoundland sent two observers, Ambrose Shea and Frederick Carter, to the Quebec Conference to discuss the Confederation of the British North American colonies. Four colonies formed Canada in 1867.

1865

Denominational proportional representation in the formation of an Executive Council and appointments to the civil service adopted following sectarian strife in1861.

1866

Atlantic telegraph cable laid between Heart's Content and Cork, Ireland.

1869

The issue of Confederation with Canada defeated in a general election.

1871

The Newfoundland Constabulary established following the withdrawal of the British garrison earlier in the year.

c.1870s

Captain William Whiteley invented the cod trap.

1875

Betts Cove copper mines opened.

1878

First telephone system operated in St. John's.

Moose introduced into Newfoundland.

1880

Newfoundland legislature enacted legislation to construct a trans-island railway. Construction commenced in 1881 and ended in 1897.

1882

The poet Edwin J. Pratt was born at Western Bay, Conception Bay. Pratt became one of Canada's most accomplished poets of the 20th century.

1884

The dry dock opened at St. John's.

1885

Electricity introduced into St. John's.

Gale on the Labrador coast resulted in the loss of 80 schooners and 300 lives.

1886

Bait Act passed restricting the sale of bait to foreign fishers. Britain refused to sanction the Act because of Canadian opposition. In 1887 Britain assented to the legislation. Newfoundland suspended the Act in 1893 because of enforcement difficulties.

1887

The legislature passed the Ballot Act providing for voting by a secret ballot instead of the public oral method in use since 1832.

1888

Municipal government established in St. John's.

1891

Newfoundland's efforts by Colonial Secretary Robert Bond to negotiate a reciprocity agreement with the United States were denied by the British Government because of protestations from Canada.

Newfoundland Teachers' Association formed.

1892

Fire destroyed the eastern half of St. John's with property loss estimated at $13,000,000.

Dr. Wilfred Grenfell arrived in Newfoundland to provide medical and missionary work to fishers in Labrador. He would remain to do so for nearly 50 years.

1894

Newfoundland's two commercial banks went bankrupt and were replaced beginning in 1895 with branches of major Canadian banks, effectively making Newfoundland's fiscal policies subject to Canadian monetary policies.

1895

Iron ore mines opened at Bell Island.

Talks between Canada and Newfoundland on Confederation failed.

1898

Controversial railway contract signed between Canadian railway contractor Robert Reid and the Newfoundland government.

Greenland sealing disaster had 48 crew members stranded on the ice where they died of exposure.

1900

Robert Bond became Prime Minister and served until 1909. He is regarded as one of Newfoundland's most accomplished politicians.

Cabot Tower opened at St. John's serving as a 24-hour signal station and weather observatory. It was constructed to celebrate Queen Victoria's Diamond Jubilee in 1897.

1901

Newfoundland's population was approximately 220,000 (4,000 of them in Labrador) living in 1,200 communities.

The Newfoundland Quarterly magazine established and was in existence in 2003.

Guglielmo Marconi sent the first wireless radio signal, from Signal Hill in St. John's to Cornwall, England.

The Ode to Newfoundland was written by Governor Sir Cavendish Boyle and adopted as the national anthem of Newfoundland.

1902

Prime Minister Robert Bond reached a reciprocity agreement with the United States but the agreement was cancelled in 1905 because of opposition in the American Senate.

1904

France agreed to give up its fishing rights on the French Shore in return for overseas territorial concessions from Britain in Africa.

1908

William Ford Coaker formed the Fishermen's Protective Union.

1909

The pulp and paper mill opened at Grand Falls.

The Board of Trade established at St. John's.

1910

Hague Tribunal resolved several fishing disputes between Newfoundland and the United States dating back to fishing rights granted the Americans under the Treaty of Paris of 1783 and the Anglo-American Convention of 1818. One of its rulings defined the Newfoundland marine territorial limit of three marine miles.

1914

Newfoundland sealing disaster resulted in the loss of 78 men who died from exposure or drowning after having failed to get back to their ship from the ice.

Bowring Park opened at St. John's.

Newfoundland declared war in support of Great Britain and formed the Patriotic Association to manage its contributions to the British war effort.

1916

On July 1 the Newfoundland Regiment of 790 members (officers and men) experienced 710 casualties at Beaumont Hamel on the opening day of the Battle of the Somme. Two hundred and seventy-two were killed and another 438 were wounded from the Regiment on this day.

1917

Daylight Savings Time instituted.

1918

The passenger vessel Florizel owned by Bowring Brothers was lost off Cappahayden with 94 people drowned out of a total of 138 aboard the vessel.

Great War Veterans' Association established.

Spanish Influenza in late 1918 and 1919 ravaged western Europe and North America. In St. John's there were 62 deaths from the disease and 407 deaths in Labrador where it was especially devastating in Inuit communities in northern Labrador.

1919

John Alcock and Arthur Brown made the first successful flight across the Atlantic Ocean from St. John's to County Galway, Ireland.

1920

Minister of Marine and Fisheries William Coaker issued regulations governing the export of fish. Opposition to the "Coaker Regulations" from prominent St. John's merchants led to the government repealing the legislation the following year.

1921

Rotary Club established at St. John's.

Child Welfare Association formed at St. John's.

1923

The Newfoundland government acquired the railway and coastal boat services and the St. John's dry dock from the Reid Newfoundland Company.

1924

Field Marshall Lord Haig visited Newfoundland to officiate at the opening of the National War Memorial in St. John's.

Newfoundland Outport Nursing and Industrial Association established.

1925

The legislature passed legislation giving the vote to women.

Memorial University College opened.

Newfoundland Methodists joined the United Church of Canada.

Pulp and paper mill opened at Corner Brook.

Newfoundland Hotel opened at St. John's.

1926

Following a meeting of an Imperial Conference in 1926, the Balfour Report declared that certain British Dominions, including Newfoundland, were equal autonomous communities within the British Empire.

1927

British Privy Council confirmed Newfoundland's legal ownership of Labrador against a claim from Canada on behalf of the province of Quebec.

1928

Copper, lead and zinc mine at Buchans commenced production.

Newfoundland Coat of Arms adopted.

1929

The first woman, Lady Helena Squires, elected to the House of Assembly.

On November 18, 1929 a tidal wave struck the Burin Peninsula area. The tragedy resulted in 27 deaths, property loss amounting to over $1,000,000, and a total of 40 communities and 10,000 people affected.

1931

Viking carrying American film producer Varick Frissell and crew exploded while at the ice off Horse Islands. Twenty-four men were killed.

A British law, the Statute of Westminister, granted the British Dominions, including Newfoundland, full legal freedom in all areas of constitutional jurisdiction that they wished to have.

Newfoundland legislature approved a national flag the Red Ensign for the Dominion of Newfoundland. In 1934 the Commission of Government reinstituted the Union Jack as Newfoundland's national flag.

1932

The last election held under the Responsible Government System was on June 11. The United Newfoundland Party under its leader Frederick Alderdice won 24 of the 27 seats.

1933

Unable to fulfill its financial obligations on its national debt that was primarily held in Britain and Canada, the Newfoundland Government agreed to the appointment by Britain of a Royal Commission to "examine the future of Newfoundland and in particular on the financial situation and the prospects therein." Chaired by Lord Amulree, the Royal Commission recommended that the Newfoundland Constitution be suspended and that Newfoundland be administered by a British-appointed commission until it was self-supporting again.

1934

Commission of Government established.

1935

Cottage hospital system established.

Newfoundland Fisheries Board established with Raymond Gushue appointed as chair.

1937

The Newfoundland Federation of Labour held its founding meeting at Grand Falls.

1939

Construction of Gander airport completed and airport opened.

Because of its constitutional status, Newfoundland became automatically a participant once Britain declared war on September 3, 1939. Newfoundland supplied two artillery regiments to British units and an Overseas Forestry Unit which worked in Scotland. Newfoundland's true importance to the Allied war effort lay in its strategic location as a defence base in the North Atlantic for North America with both Canada and the United States establishing major bases in Newfoundland and Labrador.

1941

American troop ship Edmund B. Alexander arrived in St. John's under the Leased Bases Agreement of 1941 under which the United States received permission to establish military bases in Newfoundland for a tenure of 99 years.

Argentia naval station and an army base opened at Argentia. Other major American military bases were established at St. John's and Stephenville.

A Canadian military plane carrying Dr. Frederick Banting, the discoverer of insulin, crashed near Musgrave Harbour killing Banting.

1942

American naval ships Truxton and Pollux lost off St. Lawrence with 189 officers and men lost.

The Newfoundland ferry boat, Caribou, carrying 238 passengers (including military personnel) and crew from North Sydney to Port aux Basques, was attacked and sunk by German submarine U-69. One hundred and one people survived the attack; 31 of the ship's crew of 36 were lost.

Fire in the Knights of Columbus hostel on December 12 killed 100 people and another 107 people more were injured.

1944

Newfoundland Government reached an agreement with Canada to lease Goose Bay airport to Canada for 99 years.

1945

Newfoundland Associated Fish Exporters Limited (NAFEL) established.

1946

National Convention of 45 delegates elected on June 21. The Convention met on September 11, 1946 and dissolved on January 30, 1948.

1948

The first referendum held on June 3 had three options on the ballot: Responsible Government, Commission of Government, and Confederation with Canada. The Commission of Government option received the lowest number of votes and was dropped from the ballot for a second referendum held on July 22. On this occasion, a majority of voters favoured Confederation with Canada.

Terms of Union signed on December 11, 1948.

Post-1949

1949

The first government of the Province sworn in with Joseph R. Smallwood as Premier on April 1.

The first provincial election was held on May 27 and was won by the Liberal Party led by Premier Joseph Smallwood.

1951

The provincial government established the Arts and Letters Competition to recognize awards for historical essays on Newfoundland for poetry, the short story, portraiture, landscape painting, radio scripts and drama.

1953

The provincial government encouraged the establishment of a private investor company, Brinco, and gave it extensive mineral and water rights in Newfoundland and Labrador, including the Churchill River in Labrador and the Bay d'Espoir area on the Island.

1954

Legislation enacted establishing the Newfoundland Power Commission.

Alfred Valdmanis, former Director-General of Economic Development, convicted of defrauding the government and sentenced to four years in prison.

Launched in 1954 and lasting until 1965, the province's first resettlement program saw approximately 110 communities resettled involving some 8,000 people.

1955

CJON televison opened at St. John's by Geoff Stirling.

1957

Unemployment Insurance benefits extended to fishers through the efforts of Newfoundland's representative in the federal cabinet, Jack Pickersgill.

Blanche Drover elected as mayor of Clarenville and became Newfoundland's first female municipal councillor and mayor. She polled the highest number of voters cast among the candidates.

The federal government appointed John McNair to chair a Royal Commission of Inquiry to examine the financial status of the Province as required under Term 29 of the Terms of Union.

The provincial Royal Commission on Term 29 recommended that the Province receive an annual payment of $15 million under Term 29.

1958

The federal Royal Commission on Newfoundland Finances recommended that Newfoundland receive an annual payment of $8 million under Term 29. The provincial government was disappointed and launched a national publicity campaign against the Progressive Conservative government of Prime Minister John Diefenbaker to make Canadians aware of the political injustice of the decision of the federal government. Although the Diefenbaker government did not change its position, Premier Smallwood's publicity campaign helped to weaken political support nationally for Prime Minister Diefenbaker.

1959

The International Woodworkers Association (IWA) began a loggers' strike on December 31against the Anglo Newfoundland Development Company, owners of the pulp and paper mill at Grand Falls. In March 1959 the provincial government decertified the union.

The provincial government moved the Inuit living in Hebron to Nain, Hopedale and Makkovik in an attempt to provide better public services to the residents of the community.

1960

The Newfoundland legislature met for the first time in the newly constructed Confederation Building. The Colonial Building was converted into a repository for the provincial Archives.

1961

The Elizabeth Avenue campus of Memorial University opened at St. John's.

Golden Eagle oil refinery at Holyrood opened and owned by American financier John Shaheen.

Major forest fires destroyed considerable timberland in Bonavista North.

1962

Iron Ore Company of Canada commenced mining operations at Labrador City.

1964

College of Fisheries, Navigation, Marine Engineering and Electronics opened at St. John's in the former building that housed Memorial University.

Asbestos mine opened at Baie Verte.

1965

Wabush Mines Ltd. commenced iron mining operations at Wabush.

The paving of the Trans Canada Highway across the island of Newfoundland was completed on November 27.

The Province offered free tuition to Memorial University students; in 1969 this student assistance program was changed to a "needs" assessment basis.

The federal and provincial governments initiated a new resettlement program specifically designed to move people to larger towns designated as growth centres. One hundred and sixteen communities were resettled between 1965 and 1970, consisting of 3,242 families or over 16,000 individuals.

A provincial Royal Commission appointed to inquire into the economic state and prospects of Newfoundland and Labrador.

1966

Come Home Year celebrated .

The St. John's Arts Council established.

The Bell Island iron ore mines closed.

American air base at Stephenville closed.

Brinco and Hydro Quebec signed a letter of intent to develop the Churchill Falls hydro-electric site.

1967

The Bay d'Espoir hydro-electric development commissioned.

Shipyard opened at Marystown.

The Royal Commission on Education and Youth made its report public. Chaired by Dr. Philip Warren, the Commission recommended wide-ranging changes to the educational system.

An Arts and Culture Centre opened at St. John's. Other centres were subsequently established in several large communities in the province.

1968

John Crosbie and Clyde Wells resigned from the cabinet of the Smallwood Liberal government and sat as Independent Liberals over a disagreement with Premier Smallwood over his handling of economic and industrial development projects.

A phosphorous plant opened at Long Harbour, Placentia Bay.

L'Anse aux Meadows Viking site declared a National Historic site.

Royal Commission on Economic Prospects recommended the need for more cost-benefit studies for new industries and emphasized more careful planning of fiscal resources.

1969

Power contract signed between CFLCo and Hydro Quebec for the Churchill Falls hydro-electric development.

Former Liberal cabinet minister John Crosbie unsuccessfully challenged Premier Joseph R. Smallwood for the leadership of the Liberal Party in a leadership convention.

Medicare instituted in Newfoundland as part of a federal Medical Health Plan.

The passenger rail service provided by Canadian National Railways across Newfoundland was closed down and replaced by the "Roadcruiser" bus service.

1970

The New Labrador Party formed by independent MHA Tom Burgess.

Richard Cashin and Father Desmond McGrath founded the Northern Fishermen's Union in April and re-organized it in September as the Newfoundland Fishermen, Food and Allied Workers' Union.

Percy Janes' novel House of Hate published, considered to be the province's best novel.

Federal legislation passed establishing the Canadian Saltfish Corporation. Aidan Maloney was appointed as the first Chair of the Corporation.

1971

The first teachers' strike in Newfoundland took place.

The Newfoundland government established the Newfoundland Human Rights Commission and appointed Gertrude Keough as its first commissioner. Legislation setting up the Commission was passed in 1969.

1972

Joseph Roberts Smallwood resigned as Premier and replaced by Progressive Conservative Leader Frank Duff Moores who won a general election later in the year.

Finance Minister John Crosbie informed the Newfoundland Legislature that the 1969 Power Contract between CFLCo and Hydro Quebec was a bad financial deal for the Province because of inequities in the Federal Equalization Program.

The Churchill Falls hydro-electric power development was commissioned.

New Labrador Party candidate Mike Martin was elected to the House of Assembly in a by-election.

Mummers theatrical troupe formed.

1973

Come by Chance oil refinery opened.

Codco theatrical group made its initial performance in Newfoundland.

Women selected for the first time for jury duty.

First class of medical doctors graduated from Memorial University.

The Province nationalized the linerboard mill at Stephenville.

1974

Former Liberal Premier Joseph Smallwood formed the Liberal Reform Party and elected four members in the 1975 general election.

Dorothy Wyatt elected the first female mayor of St. John's.

The Newfoundland government acquired on June 27 Brinco's interest in CFLCo for $160 million.

1975

West coast campus of Memorial University opened at Corner Brook.

Ambrose Peddle appointed Newfoundland's first ombudsman.

The Progressive Conservative government of Premier Frank Moores re-elected in a general election.

1976

The Come by Chance oil refinery closed, becoming the largest bankruptcy at the time in Canada.

John Crosbie resigned from provincial politics and entered federal politics by successfully winning a by-election in St. John's West.

1977

Canada Summer Games held in St. John's.

Canada extended its east coast fisheries custodial jurisdiction by 200 miles.

Major anti-sealing protest in Newfoundland centered at St. Anthony where French actress Brigitte Bardot is among the protestors

Fluorspar mine closed at St. Lawrence.

1978

L'Anse aux Meadows Viking site declared a world heritage site by UNESCO.

1979

The Newfoundland legislature passed the Matrimonial Property Act which recognized an equal division of property upon separation or divorce of a husband and wife effective July 1, 1980.

The Hon. Frank Moores resigned as Premier and Brian Peckford won a subsequent leadership convention. He became the third Premier of the Province and the second

Progressive Conservative Premier. He won a general election on June 18 defeating the Liberal Party led by former federal cabinet minister Don Jamieson.

Oil was discovered offshore on the Grand Banks at the Hibernia site.

The first women were appointed to the provincial cabinet, Hazel Newhook and Lynn Verge.

The 16th century whaling archaeological site at Red Bay, Labrador declared a National Historic Site.

Stephenville Theatre Festival opened its first season.

Rising Tide theatrical troupe organized.

The Hon. John Crosbie was appointed Federal Finance Minister, the first Newfoundlander to hold the position.

1980

The Newfoundland and Labrador Arts Council was established with responsibility for funding the visual, performing and literary arts and folk arts and crafts in the province.

The Peckford government issued Managing All Our Resources, a blueprint for economic development stressing greater provincial control and jurisdiction over resource development.

On April 12, 1980 Terry Fox of British Columbia left St. John's on a cross-country walk to raise money for cancer. Fox, who had lost a leg to cancer, made the "Marathon of Hope" trip as far as Thunder Bay, Ontario.

A new provincial flag, designed by artist Christopher Pratt, was adopted by the Newfoundland legislature replacing the Union Jack.

The Economic Council of Canada released Newfoundland: From Dependency to Self-Reliance, a report prepared at the request of the Government of Newfoundland and Labrador on the provincial economy.

1981

Premier Brian Peckford took a strident "provincial rights" position at the federal-provincial Conference on the Constitution while supporting Ottawa's constitutional proposals for repatriation of the BNA Act. Premier Peckford played a prominent role in helping the provinces except Quebec to reach a consensus on the specific language that culminated in the agreement.

1982

Strong disagreements between the federal and provincial governments over ownership of offshore mineral resources affected relationships between the two governments. Premier Peckford won a general election on April 6 on an anti-Ottawa stand on resource management issues, especially the issue of the offshore.

The Dictionary of Newfoundland English was published. It was edited by Drs. G.M. Story, W.J. Kirwin and J.D. Widdowson.

The oil drilling rig Ocean Ranger sank February 15, 1982 from a severe storm the previous night which hit the area capsizing the rig and killing all 84 members of its crew. Of the 69 Canadian crew members, 56 were Newfoundlanders, a fact that struck local society very hard.

1983

Margaret Cameron was appointed Newfoundland's first female Supreme Court Justice.

1984

The Mi'kmaq of Conne River received recognition as status Indians by the federal government and in 1987 received a reserve of three square kilometers of land.

The Supreme Court of Canada ruled that the federal government, and not Newfoundland, had ownership jurisdiction over offshore mineral resources.

Pope John Paul II made an official visit to Newfoundland, the first papal visit to the province.

Fishery Products International was formed out of the bankruptcy of several large fish companies that had operated in the province.

The Hon. John Crosbie was appointed Minister of Justice in the federal government of Progressive Conservative Prime Minister Brian Mulroney.

The Supreme Court of Canada ruled that the Province's Water Reversion Act was unconstitutional of Newfoundland's legislative powers.

1985

The Atlantic Accord was signed on February 11 between the federal government and the Government of Newfoundland and Labrador for the management and development of offshore oil and gas resources. The Accord included a $300 million Offshore Development Fund to be expended over five years to provide infrastructure for offshore activity.

An Arrow Airlines airliner crashed at Gander killing 248 American servicemen and eight crew members.

The Rising Tide theatrical troupe performed the first of its annual "Revue" programs.

Buchans copper and zinc mines closed.

Premier Peckford and federal Minister of Justice John Crosbie announced that Mobil Oil would use fixed concrete platforms for drilling at the Hibernia oil site.

Premier Peckford won the April 2 general election.

1986

Ethel Cochrane was appointed Newfoundland's first female Senator.

The Report of the Royal Commission on Employment and Unemployment was released. Dr. Doug House was Chair of the Commission appointed in 1985.

Provincial civil servants in the transportation, public works and general service sectors held a general strike in March and early April.

1987

Gros Morne National Park declared a world heritage site by UNESCO.

The Newfoundland legislature passed legislation privatizing Fisheries Products International.

The Peckford government agreed to enter to a joint venture with Alberta financial interests in enviroponics to develop a hydroponic greenhouse (the Sprung Greenhouse Cucumber Project) in Mount Pearl.

1988

An announcement was made by the Governments of Canada and Newfoundland and Labrador on June 30 for an agreement to close the railway in the province as part of an agreement whereby Ottawa gave $800 million for road improvements.

The Newfoundland and federal governments signed on July 18 a Statement of Principles with four oil companies for the development of the Hibernia oil field.

The Newfoundland legislature ratified the Meech Lake Accord on July 7.

Premier Peckford publicly endorsed the Canada-US Free Trade Agreement.

1989

The Peckford government abandoned the Sprung Greenhouse Cucumber Project.

The phosphorous plant closed at Long Harbour.

Hon. Brian Peckford resigned as Premier and was replaced by the Hon. Tom Rideout who was defeated in a general election on April 20 by Liberal leader Clyde Wells.

The Wells Liberal government established the Economic Recovery Commission with Dr. Doug House appointed as Chair.

1990

Mount Cashel Orphanage in St. John's closed following a series of sex abuse charges of children by priests. A report of a special commission of inquiry chaired by Gordon Winter found that the Roman Catholic Church had provided inadequate leadership in dealing with alleged sexual abuse charges at Mount Cashel.

The Governments of Canada and Newfoundland and four oil companies signed an agreement to develop the Hibernia oil field.

Report released of the Independent Review of the State of the Northern Cod Stock prepared for federal Minister of Fisheries, the Hon. Thomas Siddon. The Chair of the independent panel was Dr. Leslie Harris.

The Newfoundland legislature on April 6 voted to rescind its 1988 approval for the Meech Lake Accord. Premier Wells received national attention for his strong opposition to the Accord.

1991

The provincial government implemented strong economic and restraint measures in public expenditures.

1992

The federal government announced a moratorium on northern cod stocks and a fiscal compensation package for fishers and fish plant workers.

The Wells government supported the Charlottetown Accord for constitutional change. The Accord was defeated in a national referendum held on October 26, although 62.9 per cent of Newfoundlanders voted in its favor.

The Royal Commission on Education recommended that the province's denominational school system be dismantled.

An international tribunal established on June 10 a maritime boundary favorable to Canada in a boundary dispute between Canada and France off the islands of St. Pierre and Miquelon.

1993

Children from Davis Inlet were the subject of international attention following press accounts that they were sniffing gas.

The Rising Tide theatrical troupe gave its first performance of its annual "Trinity in the Bight" Festival.

The Wells government won re-election in a general election held on May 3.

1994

Ottawa closed the recreational food fishery.

American naval base at Argentia closed.

Volume 5 of the Encylopedia of Newfoundland and Labrador published. This was the final volume of a project conceived by former Premier Joseph Smallwood who published Volume 1 in 1981 and Volume 2 in 1984. Following the bankruptcy of Smallwood's publishing company in 1987, the J.R. Smallwood Heritage Foundation was established to raise funds to complete the project.

Strong public opposition forced the provincial government to abandon its plans to privatize Newfoundland and Labrador Hydro.

The provincial government sold the crown corporation Newfoundland and Labrador Computer Services Ltd. to Newtel Enterprises.

1995

Newfoundland prospectors Albert Chislett and Chris Verbiski discovered nickel deposits at Vosiey's Bay.

Canadian patrol ships captured a Spanish fishing vessel outside the 200-mile limit and charged its owners with illegal fishing of undersized turbot.

1996

Hon. Clyde Wells resigned as Premier and was replaced by Brian Tobin who had resigned from the cabinet of Liberal Prime Minister John Chretien and won the leadership of the provincial Liberal Party by acclamation on January 17. Tobin was sworn in as Premier on January 28 and won a general election on February 22.

International nickel company (Inco) acquired ownership of the Vosiey's Bay nickel development in Labrador.

The Government of Newfoundland and Labrador reached an agreement with several oil companies to develop the Terra Nova oil field.

1997

The Newfoundland and Labrador Film Development Agency established.

Queen Elizabeth II visited the province as part of the 500th anniversary events of the celebration of John Cabot's discovery of Newfoundland in 1497.

A public referendum on the province's denominational system of education found that a majority of voters favoured its abolition. Term 17 of the Terms of Union was amended in 1998.

Hibernia oil field produced its first oil.

1998

The Governments of Newfoundland and Labrador and of Quebec signed an agreement concerning the recall of power by Newfoundland and Labrador of power from the Churchill Falls hydro-electric development for sale outside the province.

1999

The government of Premier Tobin won re-election.

2000

Premier Tobin announced the Province would undertake the construction in St. John's of a $40-million complex (to be known as The Rooms) to house the Art Gallery, the Provincial Archives and the Newfoundland Museum.

In October Brian Tobin resigned as Premier and was appointed federal Minister of Industry. He won election to the House of Commons in the November 27 federal election.

The Hon. Beaton Tulk was sworn in as Premier on October 16, 2002 and served until the Liberal Party chose a new leader at a leadership convention.

2001

The Hon. Roger Grimes won the leadership of the Liberal Party and was sworn in as Premier on February 13.

Term 1 of the Terms of Union amended to change the name of the province from "Newfoundland" to "Newfoundland and Labrador".

Men's junior curling team captained by Brad Gushue won the world title, giving the province its first official world championship in a team sport.

On June 25 the Inuit of Labrador as represented by Labrador Inuit Association, and the Governments of Newfoundland and Labrador and of Canada signed the Labrador Inuit Land Claims Agreement-in-Principle.

2002

Newfoundland won an offshore boundary arbitration dispute with Nova Scotia.

Inco signed an agreement with the Province for the development of the Voisey's Bay nickel deposits.

The provincial government appointed the Royal Commission on Renewing and Strengthening Our Place in Canada.

The Innu of Davis Inlet began moving in December to a new community erected by the federal government at nearby Natuashish. The move was because of inadequate public and social services in Davis Inlet.

The province's third offshore oil development project, White Rose, received regulatory approval from the Government of Newfoundland and Labrador following approval of the project from the Canada-Newfoundland Offshore Petroleum Board.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Falling into the Canadian Lap: The Confederation of Newfoundland and Canada, 1945-1949

— Melvin Baker

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction ... 33
Newfoundland in the North Atlantic World ... 33
Commission of Government ... 34
Atlantic Bastion in Defence of the Atlantic Triangle ... 35
Omission of Government? ... 36
The British Waypoint to Confederation ... 37
Enter the Canadian Wolf ... 38
Convergence of Interests ... 39
The Streets of Montreal ... 41
The Barrelman of Confederation ... 42
The Political Maverick ... 43
The "Moment of Truth" in the National Convention ... 43
Success at Last ... 45
The London Delegation ... 45
The Long Hot Summer in Ottawa ... 46
Appealing Over the Heads of the Convention Delegates ... 48
The 29 Dictators: Pushing Against an Open Door ... 49
The Responsible Government League and Wayfarer ... 50
Economic Union ... 52
"Patriotism Versus Pragmatism" – Newfoundland at the Crossroads ... 52
The Orange Letter and the "Grievous Wound"149 of July 22, 1948 ... 54
King Says Yes ... 55
Talks and Great Expectations, 1948 ... 56
Last Ditch Efforts: Appeal to London ... 58
The First Premier ... 59
Contemporary Criticism: Wayfarer and the Terms of Union ... 59
Contemporary Academic Assessments ... 60
Generous Benefactor or Mixed Blessings Since 1949? ... 62
Conclusion ... 63

Endnotes ... 67
Bibliography ... 81

Introduction

This paper provides an overview of the events and processes of the late 1940s that led to Newfoundland's Confederation with Canada on March 31, 1949. It is based on the current historical literature which owes a considerable debt to the recent excellent books on Newfoundland in this period by historians Peter Neary and David MacKenzie. Both historians provided detailed analyses of Newfoundland's entry into the Canadian Confederation using primary documentation from British, Canadian, American and Newfoundland archival sources.

Newfoundland in the North Atlantic World

In the 1869 general election, Newfoundlanders rejected political union with the Canadian Confederation that had been established two years earlier. Instead, Newfoundlanders turned their attention to strengthening their economy and maintaining their political independence.[1] Confederation remained an issue just beneath the political surface in Newfoundland politics, but it was an issue politicians dare not declare their public support for. Indeed, one of the best ways to smear one's political opponent was to label that person a "Confederate." Sir Robert Bond, Prime Minister from 1900 to 1909, epitomizes most clearly this independence stance and his active political career from 1882 to 1914 was devoted to championing Newfoundland's independent nationhood.[2] That is not to say that Confederate politicians such as the Canadian-born Alfred Morine[3] were not active in local politics; however, they were unable to reach the top prize of Prime Minister on the basis of this obvious political stance.

Until 1934, Newfoundland pursued its own development strategy modeled on Canada's policy of railway development to open up the mineral and timber resources of the interior of the Island. The result was a huge development debt due to railway construction and maintenance, exacerbated by expenditures during the First World War and loans in the 1920s raised for public works expenditures.[4]

In 1934, Newfoundland was still predominantly a society of small fishing outports: there were 1,292 settlements along the coast, only 100 of them with populations of more than 500. St. John's, the capital, had 39,886 inhabitants in 1935.The fishery still employed 40 per cent of the male labour force. Wage labour was found in the paper-making towns of Grand Falls and Corner Brook; in the mining centres of Bell Island, Buchans and St. Lawrence; and in St. John's where there was a small civil service, some secondary manufacturing, and a sizable labour force involved in marine-related industries.

The world depression, beginning in 1929, struck hard. Total exports fell in value from $40 million in 1930 to $23 million in 1933.The number of people receiving "the dole", or able-bodied relief, of six cents a day rose sharply. During the winter of 1932-33, one quarter of the population depended on the government for the necessities of tea, flour, pork and molasses. Decreased revenues and increased expenditures on relief created a debt crisis for the government. In 1933, for instance, about 65 per cent of government revenues went to pay the annual interest charge on the debt. The debt had grown rapidly from $43 million in 1920-21 to $98.5 million in 1933.[5]

Thus, the constitutional change in 1934 had grown out of the financial problems Newfoundland had found itself in in the 1930s when it was unable to meet the interest payments on the public debt. When retrenchments in the civil service failed to help, in 1932 the Administration of Frederick Alderdice agreed to a British-Canadian suggestion that a royal commission be established to suggest ways for the island to meet its debt obligations and to plan its economic reorganization. The result was a recommendation from the subsequent Newfoundland Royal Commission chaired by Lord Amulree, a Scottish lawyer and former labour politician, that the 1855 constitution be suspended. What Newfoundland needed, the Commission reported on October 4, 1933 to the British House of Commons, was a respite from parliamentary politics until it was again self-supporting financially. Faced with the alternative of default, on November 28, 1933 the Dominion of Newfoundland asked the British government to replace the existing elected government by an appointed Commission.[6] The British government never set a time limit for how long the Commission would govern nor did it define what the criteria for "self-supporting" was.

The charge by the Amulree Commission that Newfoundland politics were corrupt was highly unfair; they were no more so than Canadian politics (if that was any consolation for the Newfoundland people). But in corruption, the inquiry had found an easy justification for the suspension of democracy. Had the inquiry focused more closely on the real cause of Newfoundland's economic problems – the international depression – its case for the abolition of Responsible Government would have been harder to make out.

Commission of Government

On February 16, 1934 the British-appointed Commission assumed office consisting of three Newfoundlanders – Frederick Alderdice, William Howley, and John Puddester – and three Britons – Thomas Lodge, Sir John Hope Simpson, and E.N.R. Trentham – and a British governor, Sir David Murray Anderson. The Commission had full legislative and executive powers. Its proceedings were subject only to the supervisory control of the British government, with the Governor-in-Commission being responsible to the Secretary of State for Dominion Affairs. Britain assumed financial responsibility for the Commission, which until 1940 only managed to balance its budget through grants-in-aid from the Treasury. In their financial management of Newfoundland, however, the Commissioners were also greatly assisted by the conversion in 1934 of the Island's outstanding debt issues into bonds guaranteed by Britain at a lower interest rate, thus saving some two million dollars in interest charges each year. It would have some notable achievements during its tenure from 1934 to 1949, especially in the much-needed areas of social welfare and public health.[7] The Commissioners saw their principal task as the delivery of efficient government without being bound by the political and religious practices, which, in the past, had characterized government in general and the civil service in particular.

The early popular expectations associated with the constitutional change in 1934 gave way by the late 1930s to growing public disenchantment with the Commission, particularly in St. John's. When the Commission was established, many people expected that it would have easy access to large sums of funds from the Treasury for economic development and that British capitalists would rush to invest their money in Newfoundland. However, the Commissioners gave the people more efficient government but not any substantial improvement in their standard of living. Consequently, in August 1939 a committee of prominent St. John's citizens was formed to work for the return of Responsible Government, but the outbreak of war in Europe and the Commission's mobilization of the Island's human and natural resources for Britain's war effort served to silence the Commission's critics.[8]

Atlantic Bastion in Defence of the Atlantic Triangle

With the coming of war, prosperity returned to Newfoundland and the unemployment and poor relief levels dropped drastically. The new-found wealth was the result of large expenditures by American and Canadian military personnel who built military bases on the Island to defend North America. In 1940-1941 the Commission of Government recorded a surplus budget for the first time, previous deficits having been met by grants from the Treasury. Indeed, Newfoundland was now in a position to make interest-free loans available to Britain. By 1945 these loans amounted to $12,300,000.

Newfoundlanders enthusiastically answered their Mother Country's appeal for a call to arms and enlisted in the British and Canadian armed forces. Newfoundland also supplied two artillery regiments to British units and an Overseas Forestry Unit which worked in Scotland. However, Newfoundland's true importance to the Allied war effort lay in its strategic location as a defence base in the North Atlantic for North America. Both Canada and the United States acted to protect their national interests by establishing bases in Newfoundland. A major security concern for Canada in Newfoundland was the safety of the Bell Island mines which supplied iron to the Sydney steel industry. This industry accounted for 30 per cent of Canada's total iron ore needs.

Through a series of defence agreements reached with the Commission, Canada established several installations in Newfoundland that cost over $65 million to construct. These included air bases at Torbay and Goose Bay, and a naval base in St. John's for which the British Admiralty provided funding. In total, the number of Canadian garrison troops stationed in Newfoundland peaked at nearly 6,000 army personnel in 1943, but this figure does not, of course, include the thousands of seamen in the naval convoy duty operating out of St. John's and the airmen stationed in Gander and Goose Bay.[9]

American military involvement in Newfoundland resulted from the signing by the United States and Britain of the Leased Bases Agreement of 1941. Under it, the United States received permission to establish military bases in Newfoundland for a tenure of 99 years. Major facilities built by the Americans included bases in St. John's, Argentia and Stephenville. At Argentia, in what historian Peter Neary has described as "what must surely be counted the ultimate act of resettlement in Newfoundland's long twentieth century experience of this experience," not only was the entire community of people moved to nearby communities, but the remains of 625 individuals were exhumed from an Argentia graveyard and moved to a new cemetery in nearby Freshwater.[10] The Americans also shared with the Canadians use of the Gander and Goose Bay installations. American expenditures for construction purposes by 1943 totaled

$105,000,000, while the number of military personnel stationed in Newfoundland peaked in 1943 at 10,900.

There was now employment for all who wished to work; there was such a shortage of labour that the Island's paper mills at Grand Falls and Corner Brook had to reduce newspaper production in 1943 and 1944 for several months. At Bell Island the iron ore company in 1943 temporarily reduced the size of its labour force and likewise reduced production. The Newfoundlanders working on the bases never received wage parity with their American civilian counterparts, because the Commission had decided not to allow wages to be driven up in other industries as a consequence. The Commission also banned labour strikes and lockouts and imposed compulsory arbitration on the labour scene. In 1942 the Commission organized the Labour Relations Office to set up a national employment registration scheme. This office subsequently proved especially effective in protecting the interests of labourers recruited by Canadian businesses for mainland wartime employment, the Canadians agreeing to terms of employment set by the office.[11] In such matters, the interests of the Canadian Government and the Commission of Government superseded the interests of Newfoundland workers.

Omission of Government?

As far as Newfoundlanders were concerned by the early 1940s, their country had become self-supporting. The newly found financial strength prompted many Newfoundlanders, especially some St. John's community leaders, again to think earnestly of their constitutional future. In June 1942 the St. John's Board of Trade, for instance, called on the Commission to recognize the need for it to consult a public body of representative citizens in governing the country. Expressed in vague and general terms, the Board's proposal called for some kind of formal procedures to debate public opinion. This view was endorsed by St. John's businessman and journalist Albert Perlin, a member of the Board's governing council, in his *Daily News* "Wayfarer" column. Perlin believed that Newfoundland could sustain itself financially as an independent country if the government would accept having expert advisers in economics and finance. In another column, he attacked the Commission for not realizing that it was a "stop-gap" measure and was never intended to be a permanent system. He castigated the Commission for doing nothing at all "to prepare the people for assumption of the responsibilities of self-government." "It seems more concerned with getting a pat on the back from the Dominions Office," he continued in May 1942, "than catering to the natural democratic instincts of the people." In another column he called on the Commission to provide better political education of the people because within the "past eight years enough people have come of voting age to swing an election one way or the other and hardly one of them knows anything about self-government or its responsibilities and duties." The Commission's "complete indifference" to this matter, Perlin believed, was the aspect "in which the Commission... has proved itself an utter and complete failure."[12]

Ironically, in view of his later political beliefs, radio broadcaster Joseph Smallwood, as editor of the short-lived newspaper *The Express*, in 1941 satirized the Commission of Government in a series of articles that drew the ire of the Commissioners. They were the

Ommission of Government with the Commissioner for Natural Resources being referred to as the "Ommissioner for Natural Reverses."[13]

The British Waypoint to Confederation

In early 1942 the British government under its Dominions Secretary, Clement Attlee, initiated deliberations on Newfoundland's constitutional future. The view of his senior officials was that Newfoundland's destiny lay within the Canadian Confederation and British policy should be formulated to help achieve this goal.[14] Atlee remained uncommitted and visited Newfoundland in September 1942 to get a first-hand view.[15] His findings were that Britain should continue the Commission system of government until the end of the war, when there would be a strong local demand for a return to self-government. Thus, it was important that Britain prepare the ground for constitutional change which would be one of three choices: a continuation of the existing system; self-government; or a constitutional "half way house" with Britain retaining some financial control. Confederation was considered unacceptable because there was no public support in 1942 in either Canada or Newfoundland for this option. He acknowledged that a "contract" had been made with the people of Newfoundland whereby a general demand from the people for self-government would have to be acknowledged.[16]

Attlee appointed a fact-finding mission consisting of three British MPs, Charles Ammon, Sir Derek Gunston, and Alan Herbert,[17] the so-called Goodwill Mission, that visited Newfoundland during the summer of 1943. The commission traveled the Island and Labrador, taking the views of residents. Their report to the British government was that a vote should be held in Newfoundland on its constitutional future following the end of war.[18] The British government accepted this recommendation and on December 2, 1943 announced that after the end of the war the necessary machinery would be provided to allow the Newfoundland people to decide their constitutional future.[19] P.V. Emrys-Evans, parliamentary secretary for the Dominions Office, told the British House of Commons that "there is no desire on the part of the Government to impose any particular solution. The government will be decided by the freely expressed views of the people. It is for Newfoundland to make the choice, and the Government, with the assent of Parliament, will be ready to give effect to their wishes."[20] Newfoundlanders would have the final word as to their political future, but the British "had left themselves considerable leeway."[21]

Further consultations on how the vote would be held followed between the Commission of Government and officials of the Dominions Office. As Peter Neary has noted, the British government subsequently worked "within the four corners of this declaration" and that "by the time they had to invoke the procedure for constitutional review promised in 1943, they had come to favour strongly and were promoting actively a decision by Newfoundlanders in favour of Confederation."[22] They did so because of the huge costs associated with a proposed post-war reconstruction program the Commission of Government had drawn up for Newfoundland. This program in September 1944 was projected to cost $100 million for economic development, communications, social programs and government buildings.[23]

When this reconstruction program was submitted to the Treasury, the Dominions Office was informed that it never had the funds and Britain would have to borrow heavily itself from

Canada for its own post-war reconstruction purposes as Britain was facing a dollar shortage crisis.[24] Moreover, John Keynes of Treasury advised the British government that the "right long-term solution is for Newfoundland to be taken over by Canada. The argument seems to be that the Newfoundlanders will overcome their reluctance to leave us and put themselves in the hands of Canada if we give them these great sums. It would have been natural to conclude the exact opposite, namely that, after this signal mark of our favour, the Newfoundlanders would be still more reluctant to part company with us."[25]

In July 1944 the Dominions Office appointed Corner Brook Magistrate Nehemiah Short to examine how an elected body, or a national convention, could be elected once the war ended. He recommended that members be elected by secret ballot based generally on the Redistribution Act of 1925. He also recommended that any candidate would have to be a voter and a resident of the district for which that person sought election, a move designed to prevent the past practice where St. John's residents predominantly used their influence to win elections in outport districts.[26]

On December 11, 1945 Labour Prime Minister Clement Attlee informed the British Parliament that the following year Newfoundlanders would elect a National Convention of 45 delegates, each of whom would have to be resident for two years in a district in which they would seek election. This Convention would examine and debate the changes that had taken place in the financial and economic situation of the country since 1934, and second, make recommendations to the British Government concerning the various forms of government that could be put before the people in a national referendum. The delegates would "consider and discuss among themselves, as elected representatives of the people, the changes that have taken place in the financial and economic situation of the Island since 1934, and bearing in mind the extent to which the high revenues of recent years have been due to wartime conditions, to examine the position of the country and to make recommendations to His Majesty's government as to possible forms of future government to be put before the people at a national referendum."[27] In summary, the National Convention would make its recommendations to the British government and the people would then vote on their constitutional future in a referendum.[28]

Enter the Canadian Wolf

Canadian interest in Newfoundland during the early 1940s had evolved initially from strategic concerns about its national defense and the need to protect its future basing rights in Newfoundland.[29] In 1941 it opened a High Commissioner's Office at St. John's, a "tactful Confederate outpost,"[30] to safeguard Canada's growing military interests in Newfoundland and to promote generally Canadian interests in Newfoundland.[31] The first High Commissioner was Charles Burchell, who quietly sounded out prominent St. John's citizens on Confederation and quietly encouraged St. John's lawyer John McEvoy to promote publicly Confederation between the two countries.[32] Canadian interest would also be prompted by the economic potential of Labrador's resources, especially its potential iron ore reserves in western Labrador which Canadian government officials were well aware of by 1944. Canada in 1947 would keep knowledge of its discovery by a Canadian company secret so Newfoundlanders would not be adversely influenced in their perception of Canada.[33]

Canada had no formal policy towards Newfoundland's constitutional future, other than Prime Minister Mackenzie King's 1943 public statement that "if the people of Newfoundland should ever decide that they wish to enter the Canadian federation, and should make that decision clear beyond all possibility of understanding, Canada would give most sympathetic consideration to the proposal."[34] His statement was in response to a question in the House of Commons from Joseph Noseworthy, a Newfoundland-born Toronto school teacher and MP for York South. The Canadian response was carefully noted in the Dominions Office; in November 1943 the Canadian Department of External Affairs under Robert MacKay commenced a re-examination of its policy towards Newfoundland and Newfoundland's future economic prospects. MacKay concluded that Confederation would protect Canada's interests in defence and civil aviation, but Newfoundland would be an economic and political liability as a province.[35]

The Canadian government had been careful about declaring its specific intentions to the British government. As historian James Hiller has observed, Canada was cautious because Britain first had to declare what it intended to do with Newfoundland. And, second, Canada recognized that many Newfoundlanders in 1943-44 were evidently adamantly opposed to Confederation and there was little to gain for Canada to raise the subject, although there was strong support, especially among the "educated and informed" for it.[36] In January 1944 the Canadian government transferred Hugh Keenleyside, a Confederate supporter, to St. John's as Acting High Commissioner to examine Newfoundland's political and economic situation. The British government regarded his temporary assignment as a signal that the Canadians were taking Newfoundland "much more serious than they have in the past."[37]

The British now promoted the notion that Canada's growing interest in Newfoundland was a natural progress of events. The problem was that Newfoundlanders were not interested in Confederation;[38] Canadian High Commissioner Burchell and Canadian senior officials at the Department of External Affairs believed that the restoration of Responsible Government in some form might have to occur before Newfoundlanders made a decision about joining Canada.[39] The matter at hand for the British government was how to get Newfoundlanders to consider Confederation as a viable constitutional option if the Canadians were interested.

Convergence of Interests

In November 1944 Britain's Dominions Office and Treasury had prepared a historical summary of Canada-Newfoundland relations. In their view, Canada had traditionally regarded Newfoundland with "detachment, condescension, and even contempt," believing that Newfoundland was too small to remain an independent country and eventually would "fall into ... the Canadian lap."[40] While Canada had regarded Newfoundland as a financial liability, Newfoundlanders since their rejection of Confederation in 1869 had remained determined to maintain their independence outside the Canadian nation. "The effect of the war," historian Peter Neary has observed, had been "to change Canadian but not Newfoundland attitudes. Canada had finally come to see that Newfoundland's 'full partnership' was necessary not only for her own security but to round off Confederation."[41] The presence of large numbers of American servicemen, and the more favorable impression they left on the population than had Canadian servicemen, had convinced the Canadian government that it was in its best interest to work towards greater co-operation so that Confederation would be in the best interests of both countries.[42]

In mid-1945 Associate Under-Secretary Hume Wrong of the Department of External Affairs informed Dominions Office Secretary Lord Cranborne at a meeting in San Francisco that Canada "would not be very happy" if Newfoundland was put "in so stable a financial position that all incentive for her to join Canada was removed."[43] Canadian and British interests finally converged in September 1945 when a senior Dominions Office official, P.A. Clutterbuck, visited Ottawa to secure Canadian financial support for the proposed Newfoundland reconstruction program and met with three senior officials of the Department and with the Canadian High Commissioner to Newfoundland, James Scott Macdonald. Clutterbuck was well versed in Newfoundland affairs, having first served in 1933 as Secretary to the Newfoundland Royal Commission.[44] This was a critical meeting on the road to Confederation.

Canada was not willing to provide any financial assistance to the proposed reconstruction program for Newfoundland. There was simply little public or political interest in Canada for Newfoundland affairs. Instead, Canadian officials asked what Britain's response would be to Canada welcoming a recommendation from the National Convention for Confederation. Clutterbuck replied that Britain considered Newfoundland's "natural destiny" to be Confederation with Canada.[45] His discussions with the Canadians then turned to Newfoundland's financial status as a province. The general consensus was that Newfoundland could meet current expenditures out of the normal provincial revenue sources, but that Canada would consider Newfoundland's inclusion as rounding off Confederation, a factor that made concern over balancing the balance sheet a secondary issue.[46] In this and subsequent discussions with the British, the Canadians made it clear that the initiative for Confederation would have to come from Newfoundlanders themselves and the Canadian government "would do the handsome thing by them," Prime Minister King in 1945 told the British High Commissioner to Canada, Malcolm MacDonald.[47]

The British government was in the process of divesting itself of its overseas colonies[48] and regarded "union with Canada as the objective to be aimed at" while leaving Newfoundland to be constrained by the financial and geographical aspects of its own situation. As Lord Addison, the new Dominions Office Secretary advised his fellow British cabinet members on October 18, 1945: "It would, of course, be most important that no hint that this is the solution which we envisage should be allowed to come out either here or in Newfoundland. The initiative must be left entirely to Newfoundlanders, and we must take care to avoid any appearance of seeking to influence them in any way. At the same time, we must say or do nothing which would conflict with this objective or make it harder to achieve."[49]

On December 11, 1945 Labour Prime Minister Clement Attlee informed the British Parliament that the following year Newfoundlanders would elect a National Convention of delegates. How to influence Newfoundland public opinion "behind the scenes" became a delicate balancing act for the Canadian and British governments over the next few years.[50] The British government tempered this announcement with the declaration that its ability to provide future financial assistance to an independent Newfoundland would be severely limited. As historian James Hiller has noted, this was a calculated gamble for the British government;

it hoped that the forthcoming referendum would lead to Confederation, a political option, the Canadian government informed the Dominions Office, that was increasing in popularity.[51] In May 1946 Britain appointed a new Governor for Newfoundland, Sir Gordon Macdonald, a friend of Attlee and one who fully supported Attlee's preference that Newfoundland join the Canadian Confederation.[52]

The Streets of Montreal

A prospective Confederate leader was about to position himself for the forthcoming election to the National Convention. Forty-five year old Joseph R. Smallwood was a pig farmer from Gander who was, at various phases of his life, a labour leader, journalist, and radio host.[53] It was on a business trip to Montreal in late 1945 concerning a piggery[54], which he had operated at Gander since 1943, that Smallwood read in the Montreal *Gazette* of Britain's proposed plans for Newfoundland's constitutional future. Walking the streets of Montreal for hours on December 11, 1945 an excited Smallwood debated what political options Newfoundlanders should adopt. He became determined to be part of the forthcoming political campaign – "all of my work and my training up to that moment made my entry inevitable" he later recalled[55] – but he was not sure what he preferred other than it was not to be a continuation of Commission of Government. Memories of a conversation with Gordon Bradley in 1930, in which the latter claimed that Confederation was the only salvation for Newfoundland, prompted Smallwood to consider Confederation as a viable political option for his beleaguered country. He was now a Confederate.[56]

Returning to Gander the following day on a RAF bomber, he immediately decided to update his knowledge of recent Canadian political developments. He wrote the Canadian Prime Minister and the nine provincial Premiers for information on federal-provincial relations, having decided that he would stand as a candidate for election to the National Convention. The materials poured in with Smallwood assiduously mastering the workings of the Canadian federal system. In March 1946 he wrote a series of 11 articles to the *Daily News*[57] arguing the merits of Confederation. To raise funds for his forthcoming election campaign, he borrowed $3,000 from Chesley Crosbie and bought from the Canadian government 3,000 grey woollen blankets which he resold to the Bowater paper company for $6,000. With his share of the profit, he financed his campaign for Bonavista Centre in which Gander was situated.

Election to the National Convention took place on June 21, 1946 and voters returned 45 delegates. Voter turnout in St. John's was high, but in the rest of the country turnout was light with eight candidates being elected by acclamation. All elected delegates were male with two women having failed to win election.[58] Among the 45 delegates was a representative from Labrador, the first time that region ever had its own representation in a local elected body.[59] Smallwood, who had been resident in Gander since 1943, struck a responsive chord among voters winning the district with 2,129 votes as compared to 277 for his opponent and becoming the only avowed Confederate elected openly to the Convention. Smallwood's move to Gander had indeed been fortuitous, despite the assertions of some later supporters of responsible government that Smallwood had prior knowledge of the residency qualification that would be needed for election to the National Convention.[60]

In August 1946 the newly elected delegate visited Ottawa to become acquainted with senior servants and politicians. Smallwood made his own appointments with senior civil servants. Among those he met with were Robert MacKay[61] and Jack Pickersgill, Special Assistant to Prime Minister King. While Ottawa and King did not wish to appear too anxious, Smallwood's visit effectively left him with the impression that the Canadians would seriously entertain an overture of political union with Newfoundland on satisfactory terms.[62] The visit steeled Smallwood's determination that Confederation could be achieved; Newfoundlanders had now to be as convinced as he was of its benefits.

The Barrelman of Confederation

As Smallwood quickly asserted himself as a major Confederate leader, it is best to remember what his political standing was before the National Convention opened for business. He did not evidently see himself initially as the leader of a pro-Confederate faction in 1946. Prior to his election campaign in February 1946 he had suggested to Gordon Bradley (elected for the district of Bonavista East) that a member of the St. John's elite, Sir John Puddester (Commissioner for Public Health and Welfare and a former cabinet minister under Prime Minister Alderdice) be made leader. Bradley discouraged Smallwood of this notion believing that the time was not right to form such a party. There were other Convention delegates who shared Smallwood's support for Confederation, but who were prepared to go slow on publicly pushing the issue. These delegates included Bradley who agreed, prior to the opening of the Convention, that should Confederation be successful then Smallwood would be Premier and he a federal Minister.[63] Despite the cautionary advice from Bradley, Smallwood quickly made Confederation a matter of constant debate at the Convention and he became the leader in the public's mind of the Confederate cause. With the experience gained from his Barrelman radio days as well as the oratorical skills refined over 30 years of public debate and speech making, he was able to appeal directly to outport Newfoundlanders to extol the virtues of Confederation. This appeal became especially effective when the Commission in October 1946 approved the taping of debate in the Convention for rebroadcast over the government radio station.

A minority in the Convention,[64] the Confederates quickly gravitated to the dynamic leadership of Smallwood. He had grasped the idea of Confederation with Canada as the only means of giving outport Newfoundlanders "a half decent chance in life" consisting of "North American standards of public services" which would be available through the Canadian welfare system. Through the Convention's broadcasting of its proceedings over the public radio system, Smallwood continuously emphasized these benefits, which found sympathetic hearing in cash-poor outport communities. Social and economic change in Newfoundland had become associated with the notion of Confederation with Canada.[65]

The influence of the minority Confederates in the Convention received a further boost following the death on November 16, 1946 of Convention Chair Cyril Fox.[66] Although the Commission of Government had the right of appointment, the Convention members quickly asserted their claim to appoint a successor by nominating Bradley for Chair. The Commission consulted the Dominions Office and then amended the National Convention Act that required that the Chair be a judge of the Supreme Court. Bradley assumed the office of Chair on

December 11, 1946 and retained his right to vote as an elected member.[67] His appointment reflected his seniority among the members of the Convention; it also reflected the confidence of the anti-Confederates of their ability to control the proceedings of the Convention.[68]

The Political Maverick

The election of a National Convention had been greeted with great suspicion by Peter Cashin, a delegate from St. John's. He was the most popular anti-Confederate, a political maverick and a former member of pre-Commission of Government cabinets, but a leader lacking the confidence of the Water Street merchants. Cashin viewed the British action in setting up the Convention as a breach of faith; the British Government should have restored Newfoundland to its pre-1934 constitutional status of Responsible Government once the war had ended in 1945. Cashin and his supporters used the Convention to embarrass the Commission of Government and to agitate for the restoration of Responsible Government.[69]

The fact that Cashin decided to seek and win a seat in the National Convention gave the political process a credibility that otherwise would have been denied the British Government had Cashin boycotted the Convention process. The National Convention, and critics such as Cashin having been elected, the first objective of British policy had been achieved, historian Peter Neary has commented because the "Convention's legitimacy was accepted."[70] The anti-Confederate newspaper columnist Albert Perlin welcomed the Convention as representing the last chance to get the kind of information, he optimistically noted on June 29, 1946, "on which alone the people of Newfoundland can make up their minds soundly and wisely about their future government and their prospects of advancement economically and socially."[71]

The "Moment of Truth" in the National Convention

The National Convention met on September 11, 1946 and dissolved on January 30, 1948.[72] The Commission of Government closely controlled the financial and procedural parameters under which the National Convention functioned. The Commission controlled the budget, approved all expenses and determined what "advisers, officers and servants" the Convention could hire. Having the right to appoint the Chair of the Convention, the Commission agreed with the first Chair, Supreme Court Justice Cyril Fox, that no Commissioner would be called to appear before the Convention in public session to give information and explain government policy. The Convention would be allowed to question Commissioners and their staff only in camera before committees of the Convention.[73]

Delegates did have the benefit of two major background documents on Newfoundland. The first was a report on Newfoundland's financial and economic situation prepared by officials of the Dominions Office. The second was the publication in 1946 of a collection of academic essays edited by Robert MacKay of Dalhousie University who had been seconded to the Canadian Department of External Affairs to help with Canadian planning on Newfoundland's joining the Confederation.[74] The collection included three contributions on Newfoundland's external relations by historian Allan Fraser of Memorial University College.

The Convention divided into nine investigative committees on September 18, 1946 to study various aspects of Newfoundland affairs. The subjects were fisheries, public health, education, agriculture, finance, forestry, local industries, mining, and transportation and communications.[75] The subsequent reports gave Newfoundlanders a focus on local problems and an agenda for future action. From the British point of view, the reports were "harmless, if somewhat windy, and at times, ungrateful and wrong-headed exercises, that allowed some steam to be vented politically without threatening either normal Commission rule or their own grand design" of Confederation with Canada.[76]

On October 28,1946 Smallwood made what was later termed by fellow delegate Michael Harrington a speech that was a "moment of truth"[77] because further deliberations of the Convention were influenced by the Confederation issue. What delegates said or did would be viewed from either Confederation and self-government perspectives regardless of whether delegates had publicly declared their true intentions. It "injected bitterness, suspicion and acrimony" and "created clear divisions where none existed before."[78] Smallwood unsuccessfully attempted to have the Convention approve a resolution that would send a delegation from the Convention to Ottawa to ascertain what terms of union Canada might be willing to offer Newfoundland. Smallwood introduced a motion which earlier had been suggested by Convention Chair Fox on October 1 at a meeting of the Convention's steering committee. Cashin opposed the suggestion as outside the Convention's jurisdiction, while Bradley thought that it was best to examine Newfoundland's financial and economic prospects.[79] Smallwood's October 28 resolution was allowed by the Convention Chair and sanctioned by its British-appointed constitutional expert despite his failure to provide notice of motion for the resolution.[80]

Two days later in Ottawa the Canadian government agreed to receive a delegation from the Convention if one were sent and appointed a committee of high-profile cabinet ministers "to consider and advise government on questions relating to Newfoundland and to supervise the work of the interdepartmental committee."[81] This interdepartmental committee of senior federal servants chaired by Robert MacKay had first met in May 1946 to prepare detailed information on Newfoundland in anticipation of any negotiations with Newfoundland officials for possible terms of union. [82]The Canadians would be ready; it was a matter for the Newfoundlanders to come to Ottawa.

It is generally acknowledged by historians that Smallwood introduced the resolution to stake out the leadership of the Confederation issue for himself. The decision by the Commission of Government to allow the Convention's proceedings to be broadcast over the government radio station, Broadcasting Corporation of Newfoundland,[83] worked to his advantage. His public speaking ability, honed by years of participation in debating clubs, electioneering, and as the host of the popular Barrelman radio program from 1937 to 1943,[84] enabled him to speak beyond the Convention delegates to the people of the outports bringing the messianic word of Confederation. "At one stroke," historian Peter Neary writes of the resolution, "Smallwood had succeeded in pushing himself to where he liked to be and would long remain – in the limelight at centre stage. In short order he had become the Convention's lightning rod, a figure upon whom the Newfoundland conservative social and economic elite would heap their scorn but whom they would not soon silence. The country at last had a leader in the making but one decidedly not to the taste of the comfortable upper class."[85] Smallwood would become a Confederate political leader that all would have to come to accept if reluctantly – the British government, the Canadian government and the Newfoundland economic and political elite. This motion was defeated on November 5 by a vote of 25 to 17 and the Convention agreed to delay any action to send a delegation to Ottawa until the completion of the committee reports.[86]

Success at Last

Smallwood had more success with a Confederation resolution in February 1947. On February 4, R.B. Job moved that the Convention ascertain what economic and fiscal relationships could be obtained between Newfoundland and the United States, between Newfoundland and Britain, and between Newfoundland and Canada. Job had included the Canadian option in the resolution to secure Smallwood's support for his own preference, closer economic relations with the United States. Smallwood agreed that the Convention should send a delegation to the United States to find out what economic and fiscal relationship the Americans might be willing to offer Newfoundland in a special tariff arrangement.[87] The Convention on February 4, 1947 passed a resolution that delegates be sent to Britain and Canada, and the United States for these purposes. The resolution stated that a committee of the Convention would be appointed to discuss with the Commission of Government as to how the delegates would proceed to acquire the necessary information from the three governments. This committee would report back to the Convention before any delegation left Newfoundland.[88]

The committee included Bradley, Smallwood and St. John's Convention members Job, Chesley Crosbie and Gordon Higgins. The Commission remained true to British policy and informed the committee that, with regard to the proposed delegation to the United States to discuss fiscal and trade matters, this was a matter "for negotiation between governments through the regular diplomatic channels.[89] While not supportive of a delegation to London, the Commission agreed to recommend to the Dominions Office that a delegation be sent. However, there was a caveat. The Convention delegation would have to provide in advance what enquiries in detail it wished to request of the Dominions Office. This approach, according to historian Peter Neary, effectively would "prevent the British from being put in the witness box, just as the Commission was safeguarded."[90] In its consistency, the Commission would approve a delegation to Ottawa as long as the subject would be Confederation and not fiscal, political and economic matters which were "entirely for discussion between governments."[91] The National Convention approved two resolutions on February 28: first, to send a delegation to London; and, then, a delegation to Ottawa following the return of the London delegation. Both delegations were chaired by Bradley.

The London Delegation

The British preference for Confederation was evident in a meeting the new British High Commissioner to Canada, the newly knighted Sir Alexander Clutterbuck had with senior officials of the Canadian Department of External Affairs on March 5, 1947. Clutterbuck reconfirmed his government's commitment to the Confederation choice and wanted the

Canadians to be as precise as possible with regard to the Terms of Union. Another subject was Newfoundland's sterling debt, which Britain would be willing to assume once Newfoundland became a Canadian province and which earned Britain more than $3 million Canadian in annual interest. This was the price, historian David MacKenzie has observed, that the "British were willing to pay to have the Canadians take Newfoundland (and its potential future deficits) off their hands."[92] As High Commissioner to Canada, Clutterbuck's appointment can only be seen, as Peter Neary has suggested, as insurance in Ottawa "to complete the Newfoundland deal."

The London delegation left Newfoundland on April 25, 1947 and consisted of Bradley, Peter Cashin, Malcolm Hollett, Chesley Crosbie, Albert Butt, Pierce Fudge and William Keough. Bradley and Keough were the only Confederate delegates among the group. The delegation held four meetings with the Dominions Office representatives who had carefully prepared responses to the questions the delegates were required to submit in advance of the meetings. The delegates sought answers on Britain's future support for Newfoundland and on this matter, the British made it clear that their ability to help was severely limited. If Newfoundlanders chose Responsible Government, then Newfoundland would have to assume full responsibility for its finances without any British assistance. If they chose Commission of Government, then the British would continue to provide for Newfoundland's "financial stability."[93]

The delegates also informed the British that the referendum which the Dominions Office hoped to hold in the autumn of 1947[94] should have only two options – Commission and Responsible Government. On this matter, Dominions Office Secretary Lord Addison replied that it was the responsibility of the National Convention to make whatever recommendations it wished to him on the possible future forms of government. He left the impression with the delegates that the British government reserved the right to decide what choices would ultimately be on the referendum and, to the delegates, this implied that Confederation would not be excluded as an option.[95]

Cashin and his fellow anti-Confederates returned to Newfoundland bitter and disappointed with the indifference of the British government. The trip was in the words of historian David MacKenzie "an exercise in public relations" on the part of the Dominions Office.[96] Speaking in the National Convention on May 19, Cashin claimed that 'there is in operation at the present time a conspiracy to sell, and I use the word 'sell' advisedly, this country to the Dominion of Canada."[97]

The Long Hot Summer in Ottawa

The delegation to Ottawa left on June 19 and arrived five days later on June 24 to a warm welcome and a dinner that evening tendered by Prime Minister King. Present for the dinner was the newly knighted Sir Peter Clutterbuck.[98] The delegation consisted of Confederates Bradley, Smallwood, Thomas Ashbourne, Charles Ballam, and the Rev. Lester Burry and anti-Confederates Pleman Crummey and Gordon Higgins. Bradley anticipated that the delegation's work would take only two weeks and the National Convention would reconvene about the middle of July.[99]

The Canadians were well-prepared to negotiate proposed Terms of Union. Senior officials at the Department of External Affairs were committed to Confederation, but Prime Minister King's ardour of October 1946 had waned considerably since. King's cautiousness resulted from concerns over offering more favourable terms that the other Maritime provinces would want as well. Canada was also reluctant to offer Terms of Union which later would have to be renegotiated by another delegation from Newfoundland.[100] Thus, Canada had decided prior to the arrival of the Newfoundland delegation not to make a firm and detailed offer of terms. Canada changed its mind however as a result of representations of the Canadian High Commissioner to Newfoundland, Scott Macdonald, and worked with the delegation to put together an offer based on proposed terms.[101]

The Canadian committee had put together a cost benefit analysis of what Confederation would mean for Canada. On the positive side, Newfoundland would round out the Canadian nation from "sea to sea", thus fulfilling the dream of the Fathers of Confederation in 1867. Newfoundland was Canada's eighth largest customer of its goods and Confederation would increase the average annual worth of the Newfoundland market from $25 million to about $40 million. Newfoundland would also provide Canada with substantial fisheries, forest, mineral and hydro-electric resources, especially in Labrador. With Confederation, Canada would no longer have to worry about its defence and civil aviation rights in Newfoundland and whether an independent Newfoundland would use the American presence to extract future concessions from Canada. On the negative side, the annual cost to the Canadian treasury of financial assistance to the new provincial government would be about $15 million.[102]

The first meeting between a Canadian committee of cabinet ministers chaired by Louis St. Laurent and the Newfoundland delegation took place on June 25. While the Canadians were well-fortified with expert officials from various departments, the Newfoundland delegates were left to themselves. Smallwood served on all of the 11 committees established by the two sides and generally took the lead in the discussions with the Canadians.[103] Much of the initial work involved the Canadians responding to various questions from the Newfoundlanders with Bradley and Smallwood appearing to want to drag out the negotiating process. It has been suggested by some historians that this delaying process was to postpone any referendum due for late 1947 in order to allow the Confederates more time to sell the benefits of Confederation to voters.

Prime Minister King's caution not to rush Confederation talks reflected Canadian public opinion. A Gallup Poll released in July 1947 asked a representative sampling of Canadians the question, "Do you think Canada should invite Newfoundland to become the 10th province, or not?" Forty-nine per cent replied yes as compared to 57 per cent who said yes a year earlier to a similar poll question.[104]

In late July both sides got down to drafting possible Terms of Union. The anti-Confederate members were upset over the Canadian decision to offer draft terms and along with their supporters in the Convention tried to have the delegation recalled from Ottawa. Bradley rejected calls for their return, asserting they were within their terms of reference and continued discussions with the Canadians. On July 24 Bradley told a St. John's newspaper that a basis for union was at hand and the talks would soon end. Smallwood and MacKay of External Affairs began the process of drafting the final Terms of Union that the delegation would bring to Newfoundland for consideration by the National Convention.[105]

The death of Frank Bridges on August 10 upset the schedule to complete draft terms so that the Newfoundlanders could return home. Bridges was a member of the Canadian negotiating committee and the New Brunswick representative in the federal cabinet. Ottawa declined to approve any agreement until a by-election was held and New Brunswick once more had representation in the cabinet. Prime Minister King wanted any Terms of Union to be approved by his cabinet which had representation from all nine provinces. "King's principle, in other words, was that while the existing provinces need not be consulted, the final decision would have to be taken by a cabinet in which each province had a well-established representative," Neary writes.[106]

The delegates debated whether to stay in Ottawa until the by-election was held or return to Newfoundland without the draft terms. While this discussion ensued, the Responsible Government delegates worked in co-operation with their colleagues in the National Convention to have a telegram sent to Bradley demanding that the delegation return immediately. The protesters declared that Bradley's negotiations with the Canadians was beyond the terms of reference for the delegation and thus unauthorized. Bradley denied the claim and asserted the protestors were simply playing party politics which was "nothing short of national treachery."[107]

Bradley then decided that the delegates had finished their business in Ottawa and that the work of the National Convention should resume. The delegates left Ottawa on September 30; in the end, the Canadians ensured that the Confederate delegates would not return empty-handed. They returned with a history of their negotiations, several appendices of information about the Canadian federal system, answers to questions raised by the delegates and a promise that the draft Terms of Union would be sent later.[108] These reports had black covers and quickly became known as the "Black Books."

Appealing Over the Heads of the Convention Delegates

The Ottawa delegation arrived back in St. John's on October 4 and the National Convention reconvened on October 10. Smallwood tabled the Black Books and informed the Convention that draft Terms of Union were forthcoming from the Canadian government for its consideration. The anti-Confederates attempted to censure Bradley for having carried out extensive negotiations with the Canadians, but Bradley headed off this action by resigning as Chair leaving the Convention in confusion. The Commission of Government filled the Chair by appointing St. John's lawyer John McEvoy to replace Bradley. McEvoy had been a former student[109] in the early 1930s of Robert MacKay of the Canadian Department of External Affairs when MacKay had been a political science professor at Dalhousie University.

On November 6 Smallwood introduced Canada's preferred Terms of Union to the National Convention for debate, which the Responsible Government supporters unsuccessfully failed to prevent. Smallwood and Confederation dominated the proceedings of the Convention until December 12 when the Responsible Government supporters successfully adjourned deliberations for the Christmas holidays. The Convention reconvened on January 5, 1948 when debate resumed again on Confederation. Robert Job spoke on January 15 putting forward the Responsible Government view that Newfoundland should either return to Responsible

Government or Commission of Government and then negotiate a better deal with Canada than the one being proposed by Smallwood and his Confederate colleagues. "And there would then be an opportunity for those who favour Confederation to form a party," Job said, and contest the issue. If the Confederation party were elected, they would then be in a position to pursue negotiations for Confederation."[110] In any case, Newfoundland should investigate all its options before choosing Confederation.[111]

The Confederate sojourn in Ottawa and the Canadian draft Terms of Union were critically condemned by the anti-Confederate press. Albert Perlin of the St. John's *Daily News* believed that Smallwood's proposed budget underestimated both revenue and expenditure needs under Confederation and that Canadian revenue estimates were similarly incorrect. That the Canadian financial terms were probably not the best that could be obtained from Canada, Perlin believed, proved the Responsible Government assertion that such negotiations could only best be carried out between two sovereign governments. Such negotiations could then be handled with the help of expert advisers on both sides. "Any other way would be a betrayal of the national interest," Perlin declared on September 10, 1947 "not alone of the interest of those now living but also of the interests and the rights of posterity."[112]

Perlin naturally disapproved of Smallwood's ad hoc manner in seeking Terms in mid-1947 from the Canadians. Not only had Smallwood sat on most of the committees involved with these negotiations, but he did so without the assistance of adequate Newfoundland experts. "At almost all these meetings the Canadian government was fortified by the presence of technical advisers," he commented on October 17, 1947 "while at some times the Newfoundland delegation found itself compelled to postpone the consultations while statistical information was procured from the government in St. John's."[113] It was hardly comforting to the people, he noted on December 10, 1947 that Smallwood regarded his delegates as "clod-hoppers" in describing their expertise in comparison to their Canadian counterparts. Since clod-hoppers were "clumsy, awkward boors," Smallwood's admission, Perlin continued, was "itself adequate proof of the importance of confronting the Canadian experts with men on our side of equal ability and with full official credentials... Nothing can be left to chance and that is the whole purport of our argument against the methods now employed to force union on the people."[114]

On January 19, 1948 St. John's delegate Gordon Higgins moved that the Convention recommend to the British Government that the choices on the forthcoming referendum be between "Responsible Government as it existed in Newfoundland prior to its suspension in 1934" and the present Commission of Government system. The motion passed unanimously on January 22.[115] The following day Smallwood moved that the referendum ballot include the Confederation option based on the proposals from the Canadian government tabled in the Convention on November 6, 1947. On January 23, 1948 Convention delegates by a vote of 29 to 16 defeated Smallwood's motion.[116] The Convention closed on January 30; the real political fight had yet to start.

The 29 Dictators: Pushing Against an Open Door

The Convention vote gave the Confederates an opportunity to mobilize their support. Smallwood was now the public face and voice and leader of the Confederate cause. He and

Bradley quickly took the offensive charging that the 29 delegates were "29 dictators" who denied the people the right to choose the form of government they wanted. Bradley appealed to the population through a radio broadcast that they immediately demonstrate their protest against the dictators by petitioning the Governor to have Confederation included as an option on the ballot paper. Smallwood made a similar appeal the following day.[117] The response was immediate and in just over a week Smallwood had obtained 1,550 telegrams containing over 44,000 signatures. Historian James Hiller regards this effort as the real start of the Confederate referendum campaign since "the telegrams provided valuable information about the extent and location of Confederate support." On February 21 the Confederate Association was established; Bradley was its President and Smallwood the General Secretary and Campaign Manager.[118]

Smallwood's appeal to the British government through the Governor found a receptive audience; in fact, "though he did not know it," Peter Neary writes, "Smallwood was pushing against an open door."[119] Having consulted government officials in St. John's and Ottawa, the British government announced on March 11 three choices on the forthcoming referendum ballot. As they finally appeared they were the following: "1. COMMISSION OF GOVERNMENT for a period of five years"; "2. CONFEDERATION WITH CANADA"; "3. RESPONSIBLE GOVERNMENT as it existed in 1933."[120] The British justified their decision because of the considerable debate Confederation had been given in the National Convention based on the proposed draft Terms of Union offered by the Canadian government. As there were three choices on the ballot, the British declared one of the three had to receive majority support from voters, with the option receiving the least number of votes being dropped from the ballot for a second referendum vote.[121]

The Canadian government signaled its desire to downplay any influence it might have in the forthcoming referendum campaign by appointing a more junior member of External Affairs as Acting High Commissioner to Newfoundland. Historian David MacKenzie writes that "if the Canadians had any clear policy during the referendum campaigns, it was to be seen to be doing absolutely nothing to affect the decision." The Canadian government felt that Paul Bridle rather than Scott Macdonald could better maintain "a low profile in St. John's, while allowing the Canadians to allow a degree of influence, both politically and financially, to help secure a successful outcome."[122]

The Responsible Government League and Wayfarer

Supporters of Responsible Government had formed the Responsible Government League on February 11, 1947 with St. John's businessman Francis O'Leary as President.[123] The League included businessmen, prominent lawyers, other professionals and some labour leaders from St. John's, but had excluded any members of the National Convention and especially Peter Cashin whom the economic and political elite regarded as a rabble rouser. The League wanted a return to the Responsible Government system as had existed prior to the establishment of the Commission of Government.[124] Despite its establishment, the League did little to actively promote its cause until the dissolution of the Convention in 1948. The result was that, as historian James Hiller has observed, "a unified, professional and aggressive campaign in favour of the restoration government, which could have blocked Confederate manoeuvers, never merged." Early on, the League had believed that the options on the referendum, which the Dominions Office had hoped to hold in May 1947, would be between retention of Commission of Government and Responsible Government, an assumption based on the minority support in the Convention for Confederation. The League, Hiller asserts, badly misjudged British intentions in this and other issues.[125]

The Responsible Government League was a loose organization of people united by their common opposition to Confederation, and, during the referenda campaigns of 1948, never had the strong organizational and financial support of their Confederate counterpart.[126] It had the general support of Roman Catholics, who feared the loss of the denominational school system. Roman Catholics, many of whom were of Irish origin, had played a critical role in the mid-19th century in the attainment of Responsible Government and had developed over the following century a strong sense of Newfoundland nationhood they were reluctant to give up.[127]

Unlike the Confederation forces, those wanting the restoration of Responsible Government never coalesced around one central leader. In fact, as their chief protagonist, Smallwood later noted they had "many leaders, but not one whose leadership they were all prepared to follow. Their cause was thus never a united front, and they never had united strategy."[128] Generally, those opposed to Confederation have been portrayed as simple romantics and reactionary merchants fearful of stiff competition from Canadian business. As Don Jamieson, a member of the Economic Union Movement with the United States, later noted, their case rested on a "strange mixture of hard-headed realism and deep-rooted emotions."[129]

The League's most articulate member and voice was St. John's businessman and journalist Albert Perlin, whose *Daily News* column espoused the Responsible Government perspective and raised serious concerns about arguments of the Confederation side.[130] Smallwood, a life-long friend of Perlin, later considered him to have been the intellectual force behind the Responsible Government movement. Writing in his 1973 autobiographical *I Chose Canada*, he credited Perlin with being "the clever source of every last sensible argument that ever surfaced in the anti-Confederate Campaign."[131] The other anti-Confederate leaders, they were "ignoramuses ... they did not know (about Confederation) and therefore what they said normally was arrant nonsense, except when they repeated the arguments that Albert Perlin originated in the *Daily News*." Expectedly, Smallwood qualified his comments with the assertion that the Responsible Government arguments were weak and the best his political opponents could put forward.[132]

A student of both Newfoundland history and world affairs, Perlin strongly promoted a return to Responsible Government and appealed to the public to give serious consideration to the issue of Confederation and not let themselves be swayed by rhetoric alone. Opposition to Confederation meant more than refusal to support a political union with Canada. Responsible Government meant the opportunity to determine one's own destiny in one's own way, the democratic way. "It gives to us, the people of Newfoundland," Perlin commented on April 22, 1948, "the means to suit our policies to our needs and even to change the form of government to suit those needs."[133] In a rational and logical manner, Perlin constantly asked his readers to examine the total impact Confederation would have on the Newfoundland society and economy. "Clear and dispassionate analysis of the facts, all the facts, relevant to Confederation," he wrote on May 9, 1946, "is a clear necessity." He argued that while Confederation might in the long run be the best political course for Newfoundlanders to adopt, "the facts will do that and the flowing streams of passionate rhetoric are quite unnecessary unless the facts are against the Confederates."[134] Perlin hoped that reason would triumph over emotion in the fight for the minds and hearts of Newfoundlanders in the constitutional debate.

Perlin in his columns attempted to dispel the public's perception, which Smallwood reinforced through the radio broadcast of the Convention's proceedings, that the restoration of Responsible Government was equivalent to a return to the poverty, disease, and corruption of the pre-1934 period. "The sad part of our present situation," he wrote on April 15, 1948, was "the growth of the myth that all our troubles were due to the kind of government we had before 1934. The Confederate leaders are trying to foster that belief." Rather, it was "unjust to attach to government the responsibility for an economic depression of external origin and universal effect."[135]

Responsible Government meant the opportunity to determine one's own destiny in one's own way, the democratic way. To achieve this goal, it was important to Perlin and others of like mind that the Convention, especially its Finance Committee, find that Newfoundland had the natural resources to be self-supporting. "The Convention represents the last chance to get the kind of information," he optimistically noted on June 29, 1946, "on which alone the people of Newfoundland can make up their minds soundly and wisely about their future government and their prospects of advancement economically and socially."[136] In November 1947, the Finance Committee, chaired by Peter Cashin, had reported that Newfoundland could indeed be self-supporting as an independent nation, and received Perlin's full endorsement as "a practical view of the situation."[137] By contrast, a report commissioned by the anti-Confederate *Western Star* newspaper of Corner Brook and prepared by a Montreal accounting firm confirmed the suspicions of Perlin and others that the Canadian financial terms of 1947 were inadequate and would require, Perlin warned, "burdensome taxation."[138]

Economic Union

Complicating the anti-Confederate movement was strong political sentiment in St. John's for greater economic union with the United States.[139] On March 20, 1948 those opposed to Confederation divided into two groups with the formation by St. John's businessman Chesley Crosbie of the Economic Union Movement. Unfortunately for this group, the American Government wanted no part of Crosbie's group and preferred the political union of Newfoundland with Canada. As Peter Neary has observed, the Americans under the 1941 bases deal with the British Government had gotten what they wanted in Newfoundland and went along with British plans for Newfoundland's future constitutional development.[140]

"Patriotism Versus Pragmatism" – Newfoundland at the Crossroads[141]

The date for the referendum on the three constitutional options placed before voters was June 3, 1948. The Confederates presented a formidable force as they were much better organized and funded than their opponents. Their funding came from a one dollar initiation fee, from expatriate Newfoundlanders living in Canada, the future promise of political appointments such as the six Newfoundland senate positions, and Canadian assistance indirectly through Senator Gordon Fogo, the national director of the federal Liberal Party. Fogo directed the Confederate Association to interested Canadian companies, many of whom were brewers and distillers. The Confederates published the first issue of their successful newspaper, *The Confederate*, on April 7 and this newspaper stressed repeatedly the social benefits of union with Canada: the family allowance, unemployment insurance, better pensions, and a general higher standard of living.[142] The newspaper on May 31, 1948 appealed to voters to "give yourself a chance. Give the Children a chance. Give Newfoundland a chance. Vote for Confederation and a healthier, happier Newfoundland." To Newfoundland mothers, the Confederates promised that "Confederation would mean that NEVER AGAIN would there be a hungry child in Newfoundland. If you have children under the age of 16, you will receive EVERY MONTH a cash allowance for every child you have or may have."[143]

The anti-Confederates had their own newspaper, *The Independent* and the support of the Roman Catholic Church and the business community of St. John's. *The Independent* reminded voters that "the security of the people of Newfoundland depends on just how far each Newfoundlander is prepared to use his brain and brawn to develop the natural resources of his country."[144] What was best for the country, stated the *Monitor*, the newspaper of the St. John's archdiocese, was that option which would allow Newfoundlanders to continue "to live decently, soberly and honestly, continuing to recognize that there has grown up with us during the past four-and-a-half centuries a simple, God-fearing way of life which our forebears handed down to us, and which we must pass untarnished to posterity."[145] Water Street feared for the future of its local industries under Confederation, it also feared a loss of economic dominance and the prospect of increased taxation. The anti-Confederates could also play on the traditional, ingrained antipathy to Canada, and they made appeals to local patriotism, presenting themselves as the true Newfoundlanders.[146] Those favoring economic union with the United States had to campaign under the Responsible Government banner and their co-operation with the Responsible Government League was not as smooth and unified as it could have been.

Smallwood ridiculed the wording of the Responsible Government option on the ballot which referred to the restoration of this form of government "as it was in 1933." The Confederates exploited it to mean a "return to our grimmest days in our history", Albert Perlin wrote on April 22, 1948 in the *Daily News*. Perlin denounced this frightening propaganda as "unscrupulous and unethical" and cautiously hoped that those who would vote for Confederation would do so because "they believe that it has something to offer them." However, in a theme which he emphasized in Wayfarer columns throughout the 1940s, he acknowledged that, because the people have not been schooled in political education by the Commission of Government, there will be some "who have the least concept of political democracy who will vote against Responsible Government because they believe that 'as it was in 1933' means a "return to dole and suffering."[147]

The result of the referendum was the following: for Responsible Government (69,400) 44.55 per cent; for Confederation (64,066) 41.13 per cent; and for Commission Government (22,311) 14.32 per cent. Voter turnout was 88.36 per cent of the registered voters. Support for Responsible Government was strongest in St. John's and on the Avalon Peninsula with a majority in eight districts. Confederates won majorities in nine districts and led the vote in nine other districts. Despite the high concentration of Responsible Government support on the Avalon Peninsula where the Roman Catholic population predominated, the vote was regional rather than denominational, Peter Neary asserts. There were two districts on the Avalon Peninsula that had large Protestant majorities that voted for Responsible Government. Similarly, there were two districts on the west coast that had Roman Catholic majorities that voted Confederate and where there was a long tradition of close trading relations with the Canadians.[148] The Commission of Government vote was now available for the taking.

The Orange Letter and the "Grievous Wound"[149] of July 22, 1948

The Commission announced on June 14 that the second referendum vote would be held on July 22, 1948. The ensuing campaign was an all-out fight between supporters of Confederation and the Responsible Government option. The Confederates countered any support for economic union with the United States by emphasizing Confederation as "British Union" to discredit its backers who "would like to pull down the Union Jack and run up some other flag."[150]

By comparison, some anti-Confederates played to a different prejudice, suggesting that French Canada wanted Confederation in order to get its hands on Labrador.[151] They also pointed to the blatant Confederate effort to bribe the voters with the promise of the old age pension available to all Newfoundlanders over the age of 70 years. One of their more vocal female supporters was Fanny Ryan Fiander of Harbour Grace who gave several radio broadcasts and public meetings where her oratory could arouse an audience to "a high pitch of enthusiasm," Paul Bridle informed officials at External Affairs in Ottawa. "Her ability to play on sheer emotion is superior to that of the inimitable Peter Cashin. It is perhaps a good thing for Confederation that they are the only ones of their kind in active politics."[152]

The Confederates were also helped by the quiet efforts of Governor Macdonald. For example, he was a confidant of former Convention Chair John McEvoy, who in turn was in close contact with Robert MacKay of External Affairs. Macdonald, McEvoy and MacKay formed an axis of information with McEvoy serving as a discreet conduit to MacKay for information and assistance. McEvoy, a Roman Catholic, was seen generally as a Confederate leader by the Canadians and by prominent local businessmen; as such, both Bradley and Smallwood evidently were prepared to accept McEvoy as the Confederate leader to secure Canadian support and to bring the Newfoundland Commissioners on side.[153]

While McEvoy came out in support of the Confederate side, developing events precluded his acceptability as a leader in the protestant outports. As it had been exploited in past elections, this campaign witnessed politicians playing the sectarian card.[154] In the first referendum campaign, the *Monitor* had strongly promoted Newfoundland's independence and vehemently attacked Confederation.[155] A newspaper account in the *Sunday Herald*, a newspaper owned by Geoff Stirling and a supporter of Economic Union, that Roman Catholic nuns had voted for the first time in history was widely circulated by Confederates to all the branches of the Protestant Orange Order in Newfoundland.[156] A more controversial move was the sending of a circular or letter by the Grand Master of the Provincial Grand Orange Lodge of Newfoundland to all

Orangemen critical of the Roman Catholic Church's direct involvement in the campaign and its efforts in "endeavouring to dominate Newfoundland."[157]

Sensing the growing appeal of Confederation among voters, the Confederate cause received a strong boost from the public declaration of support for Confederation by a number of prominent Newfoundland businessmen (including Leonard Outerbridge, Arthur Monroe and Eric Bowring), professionals (John McEvoy and Dr. William Roberts) and the two Newfoundland Commissioners of Government – Herbert Pottle and Herman Quinton). Many of the converts eventually hoped to jettison Smallwood as the Confederate leader once a majority of the voters had chosen Confederation.[158] Pottle and Quinton had weighed into the campaign in their positions as "private citizens" by giving radio broadcasts in support of Confederation.[159]

The Confederation option won a small majority over the Responsible Government choice, the former winning by 78,323 votes or 52.34 per cent over 71,344 or 47.66 per cent over the latter. Voter turnout was 84.89 per cent of the registered electors. The Responsible Government option carried in seven districts, all on the Avalon Peninsula, and the Confederate vote carried in the remaining districts.[160] The Confederates successfully picked up the vote previously given in the first referendum to the Commission of Government option. The same regional voting pattern evident in the first referendum was also present in the second referendum, with the Roman Catholic vote off the Avalon Peninsula having played a significant role in the Confederate vote.[161]

King Says Yes

Would Canadian Prime Minister King accept the narrow margin of victory for Confederation? Governor Macdonald wrote the Dominions Office the following day that Canada should immediately accept the referendum result and request a delegation of authorized representatives be appointed immediately to complete negotiations for Terms of Union. A copy of the letter was also sent to the British High Commissioner to Canada for King's immediate attention.[162] At last, while victory was now within grasp for High Commissioner Clutterbuck, King merely acknowledged the vote in a press release but refrained from any commitment until results were finalized.[163]

King's private secretary, Jack Pickersgill, was more enthusiastic and informed King that the margin of victory was greater than anything the Liberal Party had received in a general election since King had assumed the party's leadership in 1921. King accepted this advice and his cabinet decided on July 27 to receive a delegation from Newfoundland to complete Terms of Union negotiations. A formal announcement from Canada and Britain was made on July 30 to this effect. Britain was delighted because its view was that "any majority for Confederation, however small" would be accepted by it.[164] The benefits of the Canadian welfare state had tipped the balance in favour of Smallwood. Expectedly, Confederates in Newfoundland were delirious; Confederate leader Joseph Smallwood telegraphed Prime Minister King of his appreciation saying that King "will go down in history as the greatest Newfoundlander since John Cabot."[165]

The Canadian government sent Robert MacKay to Newfoundland on July 23 to examine the political climate in the wake of the two hard-fought and divisive referenda campaigns. In particular, he was to determine how deep the opposition was to Confederation. Responsible Government League members expressed their determination to pursue all legal and constitutional avenues.[166] Roman Catholic opposition had been the strongest on the Avalon Peninsula where Archbishop Edward Roche was "an old and tired man averse to change"and that the church's opposition arose partly out of financial concerns. It was the largest landlord in St. John's and feared direct property taxation; it also feared that administratively it would report now to Canadian church officials instead of directly to Rome. It was also concerned over the "effects of North American materialism on the godly way of life of Newfoundlanders."[167] MacKay confirmed the Canadian Government's need to move quickly and positively on negotiations with Newfoundland.[168] While the Responsible Government supporters were clearly disappointed they had lost the battle, they still hoped to win the war.

Talks and Great Expectations, 1948

The Commission of Government appointed Albert Walsh (Commissioner for Justice and Defence and a St. John's lawyer) to head the delegation to Ottawa. The other members announced on August 5 were Bradley, Smallwood, Chesley Crosbie, John McEvoy, and two businessmen, Philip Gruchy (Pouch Cove-born General Manager of the Anglo-Newfoundland Development Company's pulp and paper mill at Grand Falls) and Gordon Winter (vice-president of T. & M. Winter Company). Assisting the delegates were two senior civil servants, Walter Marshall, Secretary for Finance, and Harold Puddester, Secretary for Justice, who would remain with the delegation in Ottawa until negotiations were completed. The secretary to the delegation was the Junior Assistant Secretary in the Department of Natural Resources, James Channing. Other senior servants traveled to Ottawa when their specific expertise was required. The delegation also had the services of J.C. Thompson, a senior partner with the accounting firm of Peat, Marwick, Mitchell, Co. Thompson had worked in the 1930s with the Rowell-Sirois Commission on Dominion-Provincial Relations. Professor Vincent MacDonald of Dalhousie University was hired as a consulting legal advisor on constitutional issues.[169]

On the Canadian side, Louis St. Laurent who would succeed King as Prime Minister on November 15, chaired a cabinet committee. British High Commissioner Clutterbuck closely observed the negotiations from a safe distance, ready, as Peter Neary observes, to defend his country's interests.[170] The first meeting between the two sides began on October 6 and the Terms of Union were signed on December 11, 1948 at a ceremony held in the Senate chamber. Prime Minister King welcomed the Newfoundland delegation by saying that the "linking of the fortunes of two countries in a common destiny must always be an act of faith in the future." For King and country, the union would be the "realization of an old dream" of forging a nation from sea to sea for Canadians.[171]

Marshall's and Thompson's financial projections of the scale of transitional grants Ottawa offered in 1947 to Newfoundland showed that the assistance was inadequate and Newfoundland would be threatened with bankruptcy. It quickly became a major point of contention between the two negotiating sides with the Newfoundlanders wanting the scales revised upward.[172] Canada initially proved unwilling to move from its 1947 offer without upsetting its fiscal relations with the other provinces. Its usual response, James Channing later recalled, was generally "We're sorry but we have to treat all provinces alike."[173] Smallwood and Walsh reportedly told British High Commissioner Clutterbuck that if the Canadians did not become "more responsive and sympathetic" then Confederation was "doomed." If bankruptcy was to be result of the Canadian offer, Clutterbuck said that the Newfoundlanders were more willing to "go down as an independent country than as an impecunious Canadian province."[174] The Canadians gave ground, agreeing to increase the 12-year sliding scale transitional grant from the original proposed amount of $26,250,000 to $42,750,000. They also assured the Newfoundlanders that Canada would later implement a promised review of Newfoundland's finances in the most "sympathetic approach," a promise that swayed the Newfoundlanders to accept the new financial offer.[175] On December 11 only Chesley Crosbie refused to signed the Terms of Union; delegate Secretary James Channing remembered later that Crosbie often said during the negotiations that Newfoundland would find itself in the peculiar position of having a "prosperous population and a bankrupt government."[176]

Reflecting later in 1982 on these fiscal negotiations, Channing recalled that the Canadian committee and its senior officials appeared "almost as though they approached the whole issue as a contest between two diametrically opposed parties rather than, as it should have been viewed, as a joint, voluntary collaboration between two separate and independent dominions both working towards a mutually desired objective."[177] The Newfoundlanders were treated as if they were already a part of the federal-provincial system. "The result of the Canadian attitude, and of the failure to recognize that Newfoundland had peculiar problems that called for special treatment and handling," Channing wrote in 1982, "could be only to perpetuate Newfoundland's position as a backward region, and this would obviously be of no ultimate benefit either to Newfoundland or to Canada. It has always been and still is my view that the Canadian approach revealed shortsightedness and a lack of knowledge and understanding of Newfoundland's problems."[178]

At the official signing of the Terms of Union on December 11, Prime Minister St. Laurent remarked that "you for Newfoundland and we for Canada, have had to do our respective bests to safeguard the interests of those whom we represent. Happily, our primary concern has not been for the narrow advantage of each but to assure our common interests in one enlarged nation. In Confederation the people of Newfoundland will share all the advantages now enjoyed by the rest of the Canadian people of whom they will then be part."[179] Walsh in reply said that "the signing of this important document is one of great historic significance.... its financial implications will form the basis for claims and counter-claims.... For a large number of the people of Newfoundland the union will mean many changes. While many look forward with confidence to a great future in this union, many feel that the destinies of Newfoundland could best be worked out by the people of Newfoundland themselves standing as a separate entity in the world. As in many other agreements of this kind, much depends upon the desire of both parties to make the agreement work."[180] As the last signature was being made, Channing later recalled that he "experienced an immediate letdown when I heard one of the attending spectators (who was not, I must emphasize, a participant in the negotiations), say to another, in a triumphant tone, 'Well, at last we've got them!'"[181]

The ceremony closed with the playing of "O Canada" but the band never had the score for the "Ode to Newfoundland" and it was not played.[182] "In its stead and as a final gesture, St. Laurent led a rousing three cheers for Newfoundland."[183] Observing from the sidelines, Clutterbuck was proud of his diplomatic accomplishment at last for the "errant and high-spirited son" was "at last joining the rest of the family after running wild for so long," he wrote to the Dominions Office. While he felt that the new province might prove to be "unruly and prodigal", Clutterbuck thought any "sacrifices and inconveniences entailed" would "be well repaid in the long run."[184]

The process for implementing the Terms of Union was an amendment to the British North America Act of 1867 and its amendments, imperial legislation that governed the creation of Canada in 1867 and the subsequent admission of the five other provinces. The Canadian Parliament approved the Terms of Union on February 17, 1949, the Commission of Government did so on February 21, 1949 and the British Parliament in turn on March 23, 1949. Newfoundland thus became the 10th province on March 31, 1949.

Last Ditch Efforts: Appeal to London

While the negotiations were being successfully concluded in Ottawa, the anti-Confederates in November made unsuccessful appeals to the British House of Commons and Privy Council to have the result of the second referendum vote over-turned. The Responsible Government League had recovered from the blow of the second referendum and on September 2, 1948 launched a petition appeal for presentation to the British House of Commons asking that Responsible Government be restored and that there be no negotiations with the Canadian government "other than by representatives of a duly elected Government of the people of Newfoundland."[185] The effort was successful; on November 12 Peter Cashin, John Higgins and Frederick Marshall left Newfoundland for London with a petition containing 50,000 signatures.

The delegates complained to the Dominions Office about the behaviour of Governor Macdonald and his support of the Confederate cause but were ignored. They found a sympathetic ear in Alan Herbert, a British MP and a former member of the 1943 Goodwill Mission. Herbert tabled the petition in the House of Commons on November 23 and tabled a motion to act on the petition which would require the government to enact legislation "to restore self-government to Newfoundland, so that an election may be held in May 1949 after which the people of the Island, through their own elected Legislature and government, may determine their future, whether by way of Confederation with Canada or otherwise."[186] The British government prevented this motion coming up for debate in the Commons as it did a second attempt by Herbert in January 1949 to introduce a "Newfoundland Liberation Bill" and a similar attempt by a sympathizer in the House of Lords.[187]

Failure in London in December 1948 was followed by failure in St. John's.[188] The three League delegates reported to a public meeting on the evening of December 10 of their efforts in London. A resolution was passed at the meeting demanding that the Commission of Government instruct the negotiators in Ottawa not to sign the Terms of Union. A deputation from the League, accompanied by 2,000 supporters, converged on Government House where Governor Macdonald, who was in bed, had to get up to receive the protest resolution. The governor received the protest, but refused to intervene with the official signing of the Terms the following day. The Commission had, Peter Neary has observed, "finally slammed the door on its critics."[189]

The critics then tried another door through the courts. In November the League had a writ issued on behalf of six members of the last Newfoundland legislature against the governor and the Commission of Government. Success would have stopped the government's efforts to implement Confederation. Supreme Court Justice Brian Dunfield found against the League's action on December 13 and an appeal of his decision before Justices Edward Emerson and Harry Winter, former commissioners of government, also failed. A subsequent leave to argue the case before the Judicial Committee of the Privy Council also fell short of its mark.[190] On March 6, 1949 Governor Macdonald left Newfoundland and the administration of the country in the hands of Justice Emerson. A parting appreciation of his governorship appeared in the St. John's *Evening Telegram* newspaper two days later; signed by "E.A." and apparently in praise of Macdonald, the poem actually damned him for the "first letter of each line, read from top to bottom, formed the words 'THE BASTARD.'"[191]

The First Premier

Newfoundland entered the Canadian Confederation "immediately before the expiration of the thirty-first day of March, 1949."[192] On April 1, 1949 an official ceremony was held on Parliament Hill to welcome Newfoundland into the Confederation at a national radio broadcast with Bradley being sworn into the cabinet as Secretary of State. The carillon of the Peace Tower in Ottawa played Arthur Scammell's "Squid Jiggin' Ground," and participants concluded the ceremony with the singing of "God Save the King," "The Ode to Newfoundland," and "O Canada." The broadcast was listened to at Government House in St. John's where Albert Walsh was sworn in as Lieutenant-Governor by Emerson.

Walsh appointed Smallwood on April 1 as the province's first Premier, giving him a tremendous advantage as he led the provincial Liberal Party on May 27, 1949 to victory, winning 22 of 28 seats. For Responsible Government supporters, April 1 was a day of mourning as black drapery was hung out in St. John's in honour of the occasion.[193]

Contemporary Criticism: Wayfarer and the Terms of Union

Albert Perlin's Wayfarer column in the *Daily News* had offered its readers a cautious and reasoned criticism of the Confederate efforts. He had been strongly critical of the Canadian proposals for political union which Smallwood brought back from Ottawa in 1947 and of the final Terms of Union negotiated in the autumn of 1948. His view was the often-repeated argument that too little was known of the effects of Confederation on the economy, especially as to how the constitutional change would, for instance, affect the local cost of living, the removal of local tariff subsidies, the transportation cost of goods from Canada, and the amount of taxes consumers would pay to both the federal and provincial governments. An independent Newfoundland, he wrote on April 21, 1948, which would be "answerable only to the people of this Island," would be better able "to take steps to promote the popular interest by seeking to make arrangements in the field of external relations which would be impossible if we were a province of Canada."[194]

Perlin was not impressed with the financial concessions the Newfoundland delegates negotiated in the final Terms of Union, specifically Term 29, which provided for the appointment of a Royal Commission within eight years from the date of union to review Newfoundland's financial position. He was unimpressed because the overall financial provisions did not show that "Newfoundland as a province will be solvent at any time." Any balanced budget in the early years of union, he reminded his readers on December 20, 1948, would be achieved through increased local taxation and regular drafts on the surplus, which the Commission of Government had accumulated as a result of the prosperity during the war years.[195]

He did not think, either, that Term 29 provided much future security for the provincial government and pointed out the failure of Federal Royal Commissions, which had been appointed in the past to inquire into the social and economic conditions of the Canadian Maritimes, to produce more constructive results for the people of these three provinces. Moreover, he observed that no Canadian Government was in a "position to determine whether the recommendations of a Royal Commission to be set up in eight years time will be to the liking of the administration then in charge of Canadian affairs." In summary, Perlin wrote on New Year's Eve, 1948, "the financial arrangements are inadequate and may lead to much future trouble and even suffering."[196]

Contemporary Academic Assessments

In 1949 academic reflections on Confederation tended to support Confederation. The academic magazine, *Canadian Forum*, highlighted the general views of Canadians. In its September 1948 issue it extolled the benefits of union for both countries. For Newfoundland, it was improved living standards associated with the Canadian welfare state. Canada acquired "one of the world's greatest fishing grounds and a growing wood pulp and paper industry. Perhaps more important, inland Labrador contains an iron ore field believed to be as rich and much more extensive than the fabulous Mesabi deposits in Minnesota. Canada will also strengthen her strategic defences and will gain very important bases."[197] Such views have been echoed in subsequent Canadian historical surveys, the general view of Canadian historians being best reflected that of Donald Creighton in 1976 who judged the Terms of Union as "generous."[198] A 1981 history of Canada since 1945 portrayed the union as having "dragged the province out of the isolation of centuries."[199]

Newfoundland in the late 1940s did have some native-born academic expertise that could have assisted the delegates in their negotiations with Canada over the final terms of union, but were not involved. One individual was political scientist Bert Mayo who had completed a doctoral thesis in 1948 at Oxford University on the implications of Newfoundland's political union with Canada. Mayo studied at Dalhousie University in the early 1930s, worked for the Commission of Government in the late 1930s, served in the Canadian air force during the Second World War, and then studied at Oxford.[200] His thesis examined federal-provincial relations in Canada and analyzed the possible economic, social and financial impacts of Confederation. Mayo's assessment, historian David Alexander wrote in 1977, was done with a "brutal clarity which is difficult for a native to accomplish and which would be regarded as offensive if done by one who was not." Mayo dismissed the notion of economic union with the United States as unrealistic and that an independent state could only provide a low standard of living. Confederation would not bring economic benefits because, in the words of Alexander, "in the economist's sense of that word" the two countries were competitors in resource production. "There would be some secondary economic benefits," Alexander summarized Mayo, "arising from the lowering of Newfoundland's tariff barriers and hence its cost of living, and from access to the superior economic and technical services of the Canadian government."[201]

Mayo's conclusion, written before the referenda campaign results, was that the "future of Newfoundland is not particularly auspicious, whether the country remains independent or becomes a Canadian province. The only real difference from a social and economic point of view is that, with Newfoundland a province, the Canadian connection would guarantee some alleviation of the otherwise intolerably low standard of living. But Confederation would not work miracles – unless old age pensions and family allowances may be called by that name."[202] Mayo's thesis had little impact on the Confederation debate one way or the other, Alexander observed,[203] but it did emphasize what would be Confederation's main beneficiary, the improvement in the social welfare and public health of the population[204] and removed the boundaries that enabled people to move to the mainland for employment.[205]

A differing view was presented by another young Newfoundland political scientist, Moses Morgan who had joined Dalhousie University in 1948 following graduate work at Oxford University.[206] In 1949 he published an article on Confederation in the *Queen's Quarterly* which criticized a referendum as inappropriate for constitutional change because the "ordinary voter cannot be expected to grasp the important issues involved and is liable to be influenced by factors quite irrelevant to the issue under consideration." What should have happened, even though he felt Confederation was probably the best choice for Newfoundland, was that "Responsible Government should have been restored and the question should have been submitted to the country for a decision." [207]

Recognizing the irrevocable nature of the referendum vote and the inevitability of Confederation, Albert Perlin (who wore a black tie on April 1, 1949)[208] in early 1949 in his Wayfarer columns implored his readers to accept the forthcoming union and to work towards becoming good Canadians. He hoped that the bitterness associated with the 1948 referenda campaigns would not continue with the constitutional change in 1949. One way of preventing this from occurring, he wrote on March 11, 1949, was for the Canadian government to appoint a provisional provincial government consisting of both the victor and the loser, a "non-partisan regime, composed of able citizens above the reproach of petty partisanship."[209] He acknowledged that this would probably not happen, that Smallwood's claims that he would form the first cabinet were probably true. Yet, how Canada dealt with this matter, he commented on April 1, 1949 the day after Newfoundland formally became a tenth province of Canada would set "the standard of future political development and on what is done and how will depend the respect that a great many Newfoundlanders are going to hold or lose for the present Prime Minister of the great dominion to which, for better or for worse, we are now bound in perpetuity."[210]

Generous Benefactor or Mixed Blessings Since 1949?

Until 1974, anniversary dates for Newfoundland's entry into the Canadian Confederation have been occasions for celebrations of the historic event in keeping with Premier Smallwood's domination of provincial politics from 1949 to 1972. The 10th anniversary in 1959 took place against the background of the province's confrontation with Ottawa because of differences over Term 29 and a loggers' strike concerning Ottawa's refusal to provide federal police.[211] Writing in the *Atlantic Advocate* in April 1959, Albert Perlin praised the social impact of the welfare state over the first decade, but still believed better Terms of Union could have been negotiated. It had become clear that the 1948 delegation had failed "to predict with accuracy the financial consequences of union." Instead, the "people of Newfoundland had voted without a thorough grasp of the financial implications and the majority had simply expressed an abiding faith in Canada's generosity and good intentions. Yet, the effect, as someone said at the time, was to pass over the deeds of one's house to a buyer and, after he had acquired possession, rely on his sense of justice to give a good price."[212]

In 1964 the 15th anniversary was celebrated with publications showing the "progress" the province had made. One manifestion of this progress was the publication in 1966 of a collection of articles documenting the changes since 1949. In his foreword to the book, Premier Smallwood triumphantly proclaimed that "a revolution has swept Newfoundland... Swift improvements in our education, health, transportation and communication facilities have set the stage for further economic growth: new schools, a new university, new colleges of technical training, new hospitals and new paved highways now span the Province."[213] Perlin wrote that the "old argument of whether or not union with Canada was right for the province to take," was "all but dead and forgotten. At best, it is a useless argument because all its propositions must be retrospective and hypothetical; and in any event the issue is over and done with. The fact is that Newfoundland is today a Canadian province, and the only question worth discussion is whether or not she has made the best of the situation, and if she has benefitted from Confederation as much as was expected."[214]

On the 25th anniversary of political union in 1974 Perlin considered Confederation to have "turned out a whole lot better than anyone could have expected 25 years ago.... it was plain to any serious student of Newfoundland's political and economic history that we could not stand alone and hope to achieve a stable prosperity and a tolerable level of public and social services. There may still be some who will give me an argument on this but the fact remains that national security and fiscal aid are today the major props of our present living standard and a principal source of our necessary social capital."[215]

Increasingly, the annual anniversary of Confederation since 1974 have been occasions for serious reflections on the advantages and disadvantages of Newfoundland's place in Confederation as the Government of Newfoundland and Labrador became embroiled in legal and jurisdictional disputes with the Government of Canada over development of the province's natural resources such as hydro-electricity, fisheries and offshore minerals. These disputes have highlighted the province's ineffective political clout in Confederation, political powerlessness portrayed in the 1977 public presentations to the public hearings in St. John's of the Task Force on Canadian Unity.[216] As historian David Alexander told the Task Force in 1977, "the people of Newfoundland, like the people of Quebec, know their 'nation', but are uncertain of their country." Such uncertainty became manifested in the policies of the government of Premier

Brian Peckford of the 1980s, whose various policy positional papers stressed the importance to Newfoundlanders and Labradorians of "Managing All Our Resources."[217]

To celebrate the 50th anniversary of Confederation, the Federal and the Provincial Governments sponsored a three-day conference in 1999 which brought together distinguished academics, journalists, and business and community leaders to "explore, debate and celebrate Canada at the dawn of the new millennium and Newfoundland and Labrador's place within the Canadian federation." A brief summary of the conference proceedings was subsequently issued, entitled "History in the Making." The participants provided a lively discussion of the advantages and disadvantages of Confederation on the province, with several speakers examining how the province needed to have better administrative and fiscal arrangements with the Federal Government over the development of the province's natural resources.[218]

The Newfoundland Historical Society had sponsored a different forum on the impact of Confederation 10 days earlier. Entitled **Encounters with the Wolf** and well-attended, the symposium's two-day sessions were marked by spirited and emotional debate that concluded with a formal dinner with participants holding a straw vote which went strongly in favour of the Responsible Government option. One participant at the symposium was 91-year old Grace Sparkes, a former journalist and opponent of Confederation during the 1948 referenda campaigns. Sparkes in 1999, as she had in the late 1940s, was steadfast in her view that there had been a conspiracy between Canada and Great Britain to put Newfoundland into Confederation. She wrote "dozens of speeches" for male speakers as she travelled around the Island holding public meetings. She recalled in 1999 that "many women favoured the idea of Confederation. I wondered sometimes how much they were influenced by the prospect of being able to buy duty free goods from the Eaton catalogue."[219] Women played an important role in the referenda vote, but their voices have still gone unnoticed in the recorded history of the period.

A popular celebration of Confederation in 1999 witnessed the publication of a collection of essays entitled *Fifty Golden Years* edited by James Thoms, a former associate of Premier Smallwood. The publisher was Geoffrey Stirling, once an advocate for Economic Union in the 1940s and a supporter of Confederation after 1949. Thoms's view was that "Confederation has been good in large part, very, very good for most people in Newfoundland and Labrador, especially in getting rid of the long, long years of social poverty and deprivation. In other aspects they have been bad, very, very bad years, especially in the preservation and development of one of the greatest storehouses of natural resources in the world. No one in those 50 years was able to strike the right balance for what had to be done." The book's writers provided a balanced perspective by supporters and opponents of Confederation in the 1940s, some of whom "didn't like the way it was done" but acknowledged that overall Confederation has been beneficial for the province despite the tragic development of its natural resources.[220]

Conclusion

"The United Kingdom led, Canada followed, and Newfoundland consented." In one brief sentence, historian Peter Neary summarized the events that shaped Newfoundland's political and constitutional fate.[221] The United Kingdom and Canada each naturally acted in their national interests in the matter by preparing the political stage and quietly influencing its actors.

The events of the late 1940s were finely orchestrated by the United Kingdom and Canada to produce an outcome that was legally and constitutionally correct and which Newfoundlanders and Labradorians freely voted for in the July 22, 1948 referendum.[222] Their delegates also had the right to accept or reject the final Terms of Union, as one delegate, Chesley Crosbie, did refuse to sign.

Indeed, the Confederate margin of victory in Newfoundland in 1948 was slim but it was a majority option of those who voted. Many people – then and now – have felt that morally, at least, they were ill-treated by a British government which bent the rules of the game to suit its needs. This viewpoint is reflected in some of the recent academic scholarship on Confederation and mirrors a variation of the Responsible Government perspective put forward by Albert Perlin, for example, that Confederation was not necessarily the wrong political option. What supporters of Responsible Government at the time and others since have argued against was the process used to achieve it rather than the actual result itself. Thus, Newfoundland should have had self-government restored first; then there would have been a general election where Confederation could have been an election issue. The negotiations for terms of union would then have been between the Canadian government and a Newfoundland government elected directly by its residents. As historian James Hiller has recently observed, "what can be justifiably criticized, however, is the decision to try and engineer Confederation without a return to Responsible Government."[223] In doing so, the process "deprived Newfoundlanders of a formal, definitive voice in shaping their future."[224]

This historiography challenges what Hiller has regarded as the "Confederate orthodoxy" whereby 1949 is seen as the beginning of Newfoundland and Labrador's political history. "In this version," Hiller writes, "Smallwood reads about the forthcoming National Convention in a Montreal newspaper, becomes a born-again Confederate, returns to Newfoundland and, as a result of his tireless work and skilful manoeuvers, brings about Confederation."[225] Smallwood presented this view in public speeches throughout his career as Premier from 1949 to 1972 and through various publications, including *The Books of Newfoundland* and his 1973 memoir.

What might have happened or what some might wish had happened is a matter of speculation. What Newfoundlanders and Labradorians need, historian Peter Neary has written, "is to be told the facts of history and nothing but the facts of history. More subtly, it is sometimes suggested that the right thing – Confederation – happened but in the wrong way. In this version of events, the resumption of self-government by Newfoundland would have quickly led to union with Canada in happier circumstances. All of this is, of course, highly speculative. It also flies in the face of the strong anti-Canadian rhetoric of many of the advocates of 'Responsible Government as it existed in 1933'and the nervousness of the Government of Canada about making a deal with Newfoundland that would stir the envy of established provinces. "[226]

The recent scholarly work of Peter Neary and David MacKenzie has provided the detailed context to what happened at the highest levels of politicians and public officials in Newfoundland, Great Britain and Canada during the 1940s. So, too, have the edited documents published by the Canadian Department of External Affairs on Newfoundland-Canada relations between 1935 and 1949. However, more is needed to be known about the local and regional history of Newfoundland and Labrador in this period as a background to the broader story.[227] This could include a focused research program using both documentary and oral history sources to help us understand more fully the lives of individual Newfoundlanders and Labradorians, men and women, especially those outside the St. John's area. Such research might help us understand more fully the appeal of Confederation and the attraction of Canadian social services. Academic research should be encouraged in studing this important formative period in Newfoundland and Labrador history. More scholarly information is also needed about the individual participants in the Confederation story; the recent biographical profiles prepared by Memorial University Religious Studies Professor Hans Rollmann is a beginning in this direction. More research on Newfoundland and Labrador thus needs to delve into the economic, cultural, intellectual and social life of the 1940s and 1950s.[228]

Another area of scholarly research that is needed is in public policy. For example, the Responsible Government League asserted in the late 1940s that Newfoundland and Labrador could have survived as an independent state. No doubt, Newfoundland would have survived independently, but the real question concerns not just political survival but the quality of life that Newfoundlanders and Labradorians would have had either on their own or as a part of Canada. It is often asserted by some political commentators that the province would have been better off outside Confederation because there would have been local control over natural resources and Newfoundland and Labrador. Such views, however, belong in the realm of the "what ifs" of history.

More research should be encouraged and undertaken into the post-war period to understand what actually happened in this period and what was the province's place within Confederation and how Federal and Provincial Government policies have shaped public policy. Newfoundlanders and Labradorians born before 1980 in particular have mixed feelings about their province's place within Canada; a general history of the province since 1949 is missing but is desirable to help residents know how the province has evolved since giving up nationhood on 31 March 1949.

A legacy of doubt and uncertainty has lingered among many Newfoundlanders and Labradorians, both then and now, as to whether it would have been possible to negotiate better Terms of Union with Canada than what was achieved in 1948.[229] While the grievance factor has enabled provincial politicians to play the "anti-Ottawa card" on occasion since 1949 – a very "Canadian" approach in the history of Ottawa's dealings with the provinces – Newfoundland's ongoing relations with Ottawa have been defined by efforts to improve the context of the Terms of Union with Canada. Other suggestions made over the years to improve the province's economic status with Confederation have included an elected Senate with all provinces having equal representation and revisions to the equalization formula to give the province a greater share of the revenues from its natural resources.

In his speculation about these events of the 1940s in a 2000 convocation address to Sir Wilfred Grenfell College, Neary has commented that "Newfoundland could not have become part of Canada in any circumstances without a big political fight, so the battle that occurred and the scars that it left should not surprise."[230] How a "big political fight" would have worked itself within the confines of a restored Responsible system of government is, to say the least, speculative. Given the strong emotions embodied in the cultural and literary history of Newfoundland and Labrador since 1949, it would not have been any less vibrant and robust.[231] Big political fight or not, the challenge since 1949 has been for all Canadians to craft a Confederation that in practice, if not in theory, treats all 10 provinces as equal partners. An understanding of the historical events about how Confederation happened is important to all Canadians wishing to know why Newfoundlanders and Labradorians still have a strong sense of political grievance over their place in the Canadian nation and why the people of the province feel a need to "renew and strengthen" their place in Canada.

Endnotes

[1] James Hiller, "Confederation Defeated: The Newfoundland Election of 1869," in Hiller and Neary, eds., *Newfoundland in the Nineteenth and Twentieth Centuries: essays in interpretation*, p. 86.

[2] For further information on Bond, see Melvin Baker and Peter Neary, "Sir Robert Bond (1857-1927): A Biographical Sketch," *Newfoundland Studies* 15/1 (Spring 1999), pp. 1-54; and James Hiller, "The Political Career of Robert Bond," in Hiller and Neary, eds., *Twentieth-Century Newfoundland: Explorations*, pp. 11-45.

[3] On Morine, see Robert H. Cuff, "Alfred Bishop Morine," in *Encyclopedia of Newfoundland and Labrador*, vol. 3, St. John's: Harry Cuff publications 1991, pp. 618-21; and "Malcolm MacLeod, Confederation, 1937," *Newfoundland Studies1/2* (Fall 1985), pp.201-210.

[4] For this period, see Noel, *Politics in Newfoundland*, pp. 149-214.

[5] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 8-15; and Noel, *Politics in Newfoundland*, pp. 149-214.

[6] On this period, see the following: Noel, *Politics in Newfoundland*, pp. 204-220; Peter Neary, "That thin red cord of sentiment and of blood: Newfoundland in the Great Depression, 1929-1934" (1988 unpublished typescript in Centre for Newfoundland Studies, Memorial University) and "'With great regret and after the most anxious consideration': Newfoundland's 1932 Plan to Reschedule Interest Payments," *Newfoundland Studies* 10/2 (Fall 1994), pp. 250-259; and MacKay, ed. *Newfoundland. Economic, Diplomatic and Strategic Studies*, pp. 64-77 and 190-196.

[7] The definitive study of the Commission of Government is Neary's *Newfoundland in the North Atlantic World, 1929-1949.*

[8] *Evening Telegram*, August 5, 7, 1939.

[9] For information on the impact of the war on Newfoundland, see the following: Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 144-213; Peter Neary, "A Garrison Country: Newfoundland and Labrador during the Second World War," Canadian War Museum *Dispatches*, Issue 4 (April 1999); and MacLeod, *Nearer Than Neighbours* and *Peace of the Continent*.

[10] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 155.

[11] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 183-213. Although Canada served as a source of out-migration for Newfoundland labour, in the 1930s Canada imposed stricter controls over who got in. See also his "Canadian Immigration Policy and the Newfoundlanders, 1912-1939," *Acadiensis*, 11/2 (Spring 1982), pp. 69-83, and "Canada and the Newfoundland Labour Market, 1939-49," *Canadian Historical Review*, Vol. LXII, no. 4 (December 1981), pp. 470-495.

[12] Bridle, ed., *Documents on Relations between Canada and Newfoundland, Vol. 2, Part 1*, pp. 16-20, 31-32; and *Evening Telegram*, June 27, 1942.

[13] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 149, 283-284.

[14] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 5.

[15] Peter Neary, "Great Britain and the Future of Newfoundland, 1939-45," *Newfoundland Studies* 1/1 (September 1985), pp.33- 35. Attlee's account of his visit is in Peter Neary "Clement Attlee's visit to Newfoundland, September 1942," *Acadiensis*, 13/2 (Spring 1984), pp. 101-109.

[16]. Peter Neary, "Great Britain and the Future of Newfoundland, 1939-45," *Newfoundland Studies* 1/1 (September 1985), pp.34-35.

[17] Herbert recounted his Newfoundland visit, first in his 1944 *Newfoundland: The Forgotten Island* and in his 1950 autobiography, *Independent Member*.

[18] Peter Neary, "Great Britain and the Future of Newfoundland, 1939-45," *Newfoundland Studies* 1/1 (September 1985), pp.37-38.

[19] Peter Neary, "Ebb and Flow of Citizenship in Newfoundland, 1929-1949," in Kaplan, ed., *Belonging: The Meaning and Future of Canadian Citizenship*, p. 94.

[20] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 220.

[21] Peter Neary, "Ebb and Flow of Citizenship in Newfoundland, 1929-1949," in Kaplan, ed., *Belonging: The Meaning and Future of Canadian Citizenship*, p. 94.

[22] Peter Neary, "Great Britain and the Future of Newfoundland, 1939-45," *Newfoundland Studies* 1/1 (September 1985), p. 40.

[23] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 8. Further details on the reconstruction program can be found in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 224-228.

[24] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 228.

[25] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 228.

[26] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 226-227.

[27] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 234.

[28] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 234-235.

[29] On Canada's military rights, see Peter Neary, "The Diplomatic Background to the Canada-Newfoundland Goose Bay Agreement of October 10, 1944," *Newfoundland Studies* 2/1 (Spring 1986), pp. 39-61; Blake, *Canadians at last*, pp. 122-145; David J. Bercuson, "SAC vs Sovereignty: The Origins of the Goose Bay Lease, 1946-52," *Canadian Historical Review*, Vol. LXX, no. 2 (June 1989), pp. 206-222; and MacKenzie, *Inside the North Atlantic Triangle*, pp. 2

[30] J.K. Hiller, "The Confederation of Newfoundland and Canada, 1946-49: A Narrative" (unpublished manuscript prepared for the Historic Resources Division, Government of Newfoundland and Labrador, August 1993), p. 12.

[31] See MacKenzie, *Inside the North Atlantic Triangle*, pp. 62-65; Kathryn Ellen Hayman, "The Origins and Function of the Canadian High Commission in Newfoundland, 1941-1949," (MA thesis, University of Western Ontario, 1979); and FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 22-23.

[32] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp.13-15.

[33] FitzGerald, ed., *Newfoundland at the Crossroads*, p. 99. See also his "'The Difficult Little Island' That 'Must be Taken In': Canadian Interests in Newfoundland during World War Two," *Newfoundland Quarterly* (Spring 2001), pp. 26-27.

[34] See Mackenzie, *Inside the North Atlantic Triangle*, pp.147-48. See also Raymond B. Blake, "WLMK's Attitude Towards Newfoundland's Entry into Confederation," *Newfoundland Quarterly*, Vol. LXXXII, No. 4 (Spring 1987), pp. 26-37.

[35] MacKenzie, *Inside the North Atlantic Triangle*, pp. 147-151.

[36] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 7.

[37] MacKenzie, *Inside the North Atlantic Triangle*, pp. 150-151.

[38] John E. FitzGerald, "'The Difficult Little Island' That 'Must be Taken In': Canadian Interests in Newfoundland during World War Two," *Newfoundland Quarterly* (Spring 2001), p. 27.

[39] J.K. Hiller, "The Confederation of Newfoundland and Canada, 1946-49: A Narrative" (unpublished manuscript prepared for the Historic Resources Division, Government of Newfoundland and Labrador, August 1993), p. 12.

[40] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 230.

[41] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 230.

[42] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p.230.

[43] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 229. A summary of Clutterbuck's account of his Ottawa visit is in FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 42-47.

[44] See Peter Neary, "'A more than usual ... interest': Sir P.A. Clutterbuck's Newfoundland Impressions, 1950," *Newfoundland Studies* 3/2 (Fall 1987), pp. 251-254.

[45] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 231.

[46] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 231-232.

[47] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 232.

[48] Robert Holland, "Newfoundland and the Pattern of British Decolonization," *Newfoundland Studies*, 14/2 (Fall 1998), pp. 141-153.

[49] Quoted in Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 10.

[50] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 232. The National Convention Act is available in FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 49-50.

[51] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 11.

[52] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 19.

[53] See Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 281-284 for details of Smallwood's life before 1945. Other sources include: Smallwood, *I Chose Canada*; Gwyn, *Smallwood*; Rowe, *The Smallwood Era*; Horwood, *Joey*; and Baker, "Joseph Roberts Smallwood," in *Encyclopedia of Newfoundland and Labrador*, vol. 5, pp. 208-215.

[54] On the Gander piggery, see Smallwood, *My Brother, Joe*.

[55] Smallwood, *I Chose Canada*, p. 226.

[56] Smallwood, *I Chose Canada*, pp. 227-228.

[57] These letters are available in Smallwood, ed., *The Book of Newfoundland*, vol. 3, pp. 38-62.

[58] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 280. Details of the election campaign and a list of candidates are provided in Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 46-59 and 159-162. Biographical profiles of the delegates can be found in Hiller and Harrington, eds., *The Newfoundland National Convention 1946-1948. Volume Two: Reports and Papers*, pp. 524-540.

[59] Swain, *Lester Leeland Burry*.

[60] Smallwood, *I Chose Canada*, pp. 229-233. Questions about whether Smallwood had prior knowledge of the residency qualification are best explored in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949 (MA thesis, Memorial University, 1992), p. 28 and his "Newfoundland Politics and Confederation Revisited: Three New Works," *Newfoundland Studies* 9/1 (Spring 1993), pp. 115.

[61] R.A. MacKay, "When He was Unknown in Ottawa," in Thoms, ed., *Just Call Me Joey*, pp. 37-39.

[62] Raymond B. Blake, "WLMK's Attitude Towards Newfoundland's Entry into Confederation," *Newfoundland Quarterly*, Vol. LXXXII, No. 4 (Spring 1987), p. 29.

[63] See James Hiller, "The Career of F. Gordon Bradley," *Newfoundland Studies* (vol. 4, 1988) , pp. 163-180.

[64] The Commission of Government estimated that one-quarter of the delegates were Confederates. See Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 284.

[65] In his "Joseph Smallwood: Twenty-five Years On," *Newfoundland Quarterly*, Vol. XCI, no. 3& 4 (Winter/Spring 1998), p. 4, Edward Roberts convincingly argues that Smallwood

successfully marshaled the desire for social and economic change in areas such as the northeast coast where William Coaker and the Fishermen's Protective Union held political sway before 1924.

[66] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, pp. 21-22.

[67] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 291.

[68] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 22; and "The Career of F. Gordon Bradley," *Newfoundland Studies*, 4/2 (Fall 1988), p. 172.

[69] Hiller, "Newfoundland Confronts Canada," in Forbes and Muise, eds., *The Atlantic Provinces in Confederation*, p. 458. On Cashin's involvement, see Peter Cashin, Harold Horwood and Leslie Harris, "Newfoundland and Confederation, 1948-49," in Wade, ed., *Regionalism in the Canadian Community, 1867-1967*, pp. 227-263.

[70] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 280.

[71] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, p.76.

[72] An edited version of the debates of the National Convention's proceedings is Hiller and Harrington, eds., *The Newfoundland National Convention 1946-1948. Volume One: Debates.*

[73] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 285-286.

[74] J.K. Hiller, "The Confederation of Newfoundland and Canada, 1946-49: A Narrative" (unpublished manuscript prepared for the Historic Resources Division, Government of Newfoundland and Labrador, August 1993), p. 28.

[75] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 287. The committee reports can be found in Hiller and Harrington, eds., *The Newfoundland National Convention 1946-1948. Volume Two: Reports and Papers.*

[76] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 287.

[77] Harrington, "National Convention," in *Encyclopedia of Newfoundland and Labrador*, Vol. 4, p. 15.

[78] J.K. Hiller, "The Confederation of Newfoundland and Canada, 1946-49: A Narrative" (unpublished manuscript prepared for the Historic Resources Division, Government of Newfoundland and Labrador, August 1993), p. 33.

[79] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, pp. 20-21; and Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 65-66.

[80] Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 65-66.

[81] Quoted in Raymond B. Blake, "WLMK's Attitude Towards Newfoundland's Entry into Confederation," *Newfoundland Quarterly*, Vl. LXXXII, No. 4 (Spring 1987), p. 29. See

also John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), p. 62.

[82] Bridle, ed., *Documents on Relations between Canada and Newfoundland, vol. 2, 1940-1949, Part I*, pp. 245-50. The background work of this committee is examined in MacKenzie, *Inside the North Atlantic Triangle*, pp.169-185.

[83] On the establishment of this corporation, see Jeff A. Webb, "The Origins of Public Broadcasting: The Commission of Government and the Creation of the Broadcasting Corporation of Newfoundland," *Acadiensis*, 24/1 (Autumn 1994), pp. 88-106.

[84] On Smallwood's career as a radio broadcaster, see the following: Philip Hiscock, "The Barrelman Radio Programme, 1937-1943: the Mediation and Use of Folklore in Newfoundland." (Ph.D. thesis, Memorial University, 1994); Jeff A. Webb, "Constructing Community and Consumers: Joseph R. Smallwood's *Barrelman* Radio Program," *Journal of the Canadian Historical Association*, 1997, New Series, 8 (1998), pp. 165-186; and Peter Narváez, "Joseph R. Smallwood, 'The Barrelman': The Broadcaster as Folklorist" in Narváez and Laba, eds. *Media Sense*, pp. 47-64.

[85] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 290.

[86] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 22. See also Hiller's "The Confederation of Newfoundland and Canada, 1946-49: A Narrative" (unpublished manuscript prepared for the Historic Resources Division, Government of Newfoundland and Labrador, August 1993), pp. 30-32.

[87] Michael F. Harrington, "National Convention," in *Encyclopedia of Newfoundland and Labrador*, Vol. 4, p. 16.

[88] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 295.

[89] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 296.

[90] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 296-297.

[91] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 297.

[92] MacKenzie, *Inside the North Atlantic Triangle*, pp. 178-179.

[93] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 300-302.

[94] Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), p. 92.

[95] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 302. See also Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 84-92; and MacKenzie, *Inside the North Atlantic Triangle*, pp. 176-182.

[96] MacKenzie, *Inside the North Atlantic Triangle* , p. 182.

[97] Hiller and Harrington, eds., *The Newfoundland National Convention 1946-1948, Volume One: Debates*, pp. 533-534.

[98] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 303.

[99] Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), p. 93.

[100] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, pp.33-34. See also Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 92-104; MacKenzie, *Inside the North Atlantic Triangle*, pp.186-195; Smallwood, *I Chose Canada*, pp. 269-272; and Gwyn, *Smallwood*, pp.86-91 for details of the delegation's work in Ottawa.

[101] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 34.

[102] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 305-306; and MacKenzie, *Inside the North Atlantic Triangle*, pp. 183-187.

[103] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), p. 77.

[104] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 308. The results of the poll are to be found in Bridle, ed., *Documents on Relations between Canada and Newfoundland, vol. 2, 1940-1949, Part I*, pp. 573-576.

[105] Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), pp. 95-99.

[106] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 308.

[107] Quoted in Jeff A. Webb, "Newfoundland's National Convention, 1946-48" (MA thesis, Memorial University, 1987), p. 100.

[108] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 36.

[109] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 310.

[110] Hiller and Harrington, eds., *The Newfoundland National Convention 1946-1948, Volume One: Debates*, p. 1206.

[111] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 310.

[112] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times, Albert B. Perlin*, pp. 75-76.

[113] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times, Albert B. Perlin*, pp. 76-77.

[114] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times, Albert B. Perlin*, pp. 93-94.

[115] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 311.

[116] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 311-312.

[117] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 314.

[118] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, pp. 43-44.

[119] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 314.

[120] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 314.

[121] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 314-315.

[122] MacKenzie, *Inside the North Atlantic Triangle*, p. 196.

[123] Details of the Responsible Government League are found in Jeff A. Webb, "The Responsible Government League and the Confederation Campaigns of 1948," *Newfoundland Studies*, 5/2 (Fall 1989), pp. 203-220; and John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992).

[124] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 292-293.

[125] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, pp. 21-23.

[126] See Jeff A. Webb, "The Responsible Government League and the Confederation Campaigns of 1948," *Newfoundland Studies*, 5/2 (Fall 1989), pp. 203-220.

[127] See John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992) and his "'The True Father of Confederation'? Archbishop E.P. Roche, Term 17, and Newfoundland's Confederation with Canada," *Newfoundland Studies*, 14/2 (Fall 1998), pp. 188-219.

[128] Smallwood, *I Chose Canada*, p. 2.

[129] Donald C. Jamieson "I Saw the Fight for Confederation," in *The Book of Newfoundland*, Vol. 3, 76.

[130] Other articulate views on the Responsible Government position are public speeches by St. John's businessman Calvert Pratt and lawyer Charles Hunt, available in FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 63-70.

[131] Smallwood, *I Chose Canada*, p. 297.

[132] Hollohan, Albert Perlin, p. 64.

[133] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 112-113.

[134] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 22-23.

[135] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 110-111.

[136] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 33-34.

[137] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 84-85.

[138] FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 110-116; and Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 119-120.

[139] The history of Newfoundland's efforts to pursue reciprocity with the United States is examined in Peter Neary and S.J.R. Noel, "Newfoundland's Quest for Reciprocity, 1890-1910," in Wade, ed., *Regionalism in the Canadian Community, 1867-1967*, pp. 210-226.

[140] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 316-318; and MacKenzie, *Inside the North Atlantic Triangle*, pp. 200-201.

[141] Johnston, *Baltimore's Mansion*, p. 58.

[142] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 316; and MacKenzie, *Inside the North Atlantic Triangle*, pp. 198-199.

[143] Neary, ed., *Political Economy of Newfoundland*, pp. 140-141. And benefits there would be after 1949. The Commission of Government in its last year of governing Newfoundland paid out a total of $374,000 in old age pensions; by the end of 1950 over 12,000 Newfoundlanders over 70 years of age would receive $5.3 million, and this amount, combined with family allowances and unemployment insurance, injected over $24 million into the local economy. See Blake, *Canadians at Last*, pp. 70-93.

[144] Quoted in Neary, ed., *The Political Economy of Newfoundland, 1929-1972*, p. 146.

[145] Quoted in Neary, ed., *The Political Economy of Newfoundland, 1929-1972*, p. 131.

[146] James Hiller, "Newfoundland Confronts Canada," in Forbes and Muise, eds., *The Atlantic Provinces in Confederation,* p. 460. Details of the referendum campaign can be found in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp.138-169.

[147] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 112-113.

[148] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 321. A district by district breakdown of the vote is in FitzGerald, ed., *Newfoundland at the Crossroads*, p. 120.

[149] Johnston, *Baltimore's Mansion*, p. 13.

[150] Quoted in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp. 211-212.

[151] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 323.

[152] Quoted in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), p. 246.

[153] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp.209-210.

[154] Details of the second referendum campaign can be found in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp. 170-251.

[155] FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 88-92.

[156] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 52.

[157] Quoted in John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), p. 211.

[158] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 322; and MacKenzie, *Inside the North Atlantic Triangle*, p. 203.

[159] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp. 234-236.

[160] A district by district breakdown of the vote is in FitzGerald, ed., *Newfoundland at the Crossroads*, pp. 135-136.

[161] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 324.

[162] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp. 264-265.

[163] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), p. 265.

[164] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 325-326.

[165] MacKenzie, *Inside the North Atlantic Triangle*, p. 206.

[166] John E. FitzGerald, "The Confederation of Newfoundland with Canada, 1946-1949" (MA thesis, Memorial University, 1992), pp. 265-273; and MacKenzie, *Inside the North Atlantic Triangle*, p. 208.

[167] Bridle, ed., *Documents on Relations between Canada and Newfoundland, vol. 2, 1940-1949, Part I* Ottawa: Supply and Services Canada 1984, p. 989.

[168] MacKenzie, *Inside the North Atlantic Triangle*, pp. 198-199.

[169] Channing, *The Effects of Transition to Confederation*, pp. 36-37. The other senior servants included the following: W.J. Carew (Secretary of the Commission); G.W.D. Allen (Assessor Taxes); R. Manning (Secretary for Public Utilities); Gordon Howell (Secretary for Customs); Raymond Gushue (Chairman, Newfoundland Fisheries Board); Dr. Leonard Miller (Department of Public Health and Welfare); W.S. Roddis (Secretary for Posts and Telegraphs); W.F. Galgay (Broadcasting Corporation of Newfoundland); D.J. Gillis (Department of Natural Resources); Herbert Russell (General Manager, Newfoundland Railway); and Capt. Martin Dalton (Marine Superintendent, Newfoundland Railway).

[170] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 326-327.

[171] Quoted in Channing, *The Effects of Transition to Confederation*, pp. 38-39.

[172] Channing, *The Effects of Transition to Confederation* , p. 37.

[173] Channing, *The Effects of Transition to Confederation*, p. 41.

[174] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 327. See also Channing, *The Effects of Transition to Confederation*, p. 42 where Channing claims "more than once Mr. Walsh let it be known that he was on the verge of departing for St. John's."

[175] Channing, *The Effects of Transition to Confederation*, p. 42.

[176] Channing, *The Effects of Transition to Confederation*, p. 43.

[177] Channing, *The Effects of Transition to Confederation*, p. 37.

[178] Channing, *The Effects of Transition to Confederation*, p. 42.

[179] Channing, *The Effects of Transition to Confederation*, p. 49.

[180] Channing, *The Effects of Transition to Confederation*, p. 49.

[181] Channing, *The Effects of Transition to Confederation*, p. 50.

[182] Channing, *The Effects of Transition to Confederation*, p. 50.

[183] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 329.

[184] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 329.

[185] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 337.

[186] Quoted in Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 338.

[187] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 338.

[188] A contemporary account of events in this period is Browne's *Eighty-four Years a Newfoundlander, Volume 1, 1897-1949*, pp. 289-337.

[189] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 338.

[190] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 338.

[191] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 339.

[192] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 329.

[193] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, pp. 340-341.

[194] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, p. 111.

[195] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 144-145.

[196] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, p. 152.

[197] *Canadian Forum* (September 1948), pp. 124-125.

[198] Creighton, *The Forked Road: Canada 1939-1957*, p. 161.

[199] Bothwell, Drummond and English, *Canada Since 1945: Power, Politics, and Provincialism*, p. 148.

[200] For further biographical information on Mayo, see MacLeod, *Crossroads Country*, pp. 97-114.

[201] Alexander, *The Decay of Trade*, p. 13.

[202] H.B. Mayo, "Newfoundland and Canada: The Case for Union Examined" (Unpublished D.Phil. thesis, Oxford University, 1948), pp. 396-397.

[203] Alexander, *The Decay of Trade*, p. 14.

[204] H.B. Mayo, "Newfoundland's Entry into the Dominion," *Canadian Journal of Economics and Political Science*, vol. 15 (November 1949), p. 510. Mayo reiterated his views in this article. He addressed the questionable process which brought Confederation about. While acknowledging there was some credibility in the notion that Newfoundland should have negotiated union from the status of an independent state, Mayo asserted that the result came from an appeal to the electorate in the "best traditions of democracy: plebiscites have been a common means of determining political destinies in the modern world. The views put forward attributing Machiavellian motives to Britain (and Canada), in prescribing a National Convention and a popular vote, appear to be sheer speculation inspired by hostility to the prospect of Confederation. There is no reason whatever to suppose that Britain was doing more than carrying out conscientiously its obligation to withdraw from Newfoundland; and since Newfoundland opinion was obviously divided, if future recriminations were to be avoided, then the responsibility had to be placed upon Newfoundlanders themselves of deciding their political future."

In keeping with the accepted view at the time, Mayo ascribed the success of Confederation to Smallwood: "if a movement was the creation of one man it was this. Confederation was not brought to life in response to public demand, but was raised from the status of an academic issue to that of a burning national question, one which dissolved ancient loyalties and divided families and friends... No doubt he took the tide when it served, and he soon acquired allies, but nevertheless he was the prime mover."

[205] The story of the Newfoundland migration experience can be found in a number of publications. See, for example, Short, *Looking Through my Father's Eyes*, and French's *Leaving Home* and *Of the Fields, Lately*.

[206] Poole, *Mose Morgan: A Life in Action*, pp. 67-68.

[207] M.O. Morgan, "Public Affairs: Newfoundland, our Tenth Province," *Queen's Quarterly*, Vol. LVI, no. 2 (1949), pp. 258-267. Morgan concluded by stating that "with the passage of time Newfoundlanders will learn to enlarge their patriotism, and to become Canadians. Their deep-seated love of their country will lead them eventually to bury any resentment and to work hard for the success of this new venture. Their love of country will not be diminished, but its range and influence will be enlarged."

[208] Albert B. Perlin, "A Decade of Confederation: A Newfoundland Editor's Assessment," *Atlantic Advocate* (April 1959), p. 17.

[209] Hollohan and Baker, eds., *A Clear Heal in Tempestuous Times. Albert B. Perlin*, pp. 154-155.

[210] Hollohan and Baker, eds., *A Clear Head in Tempestuous Times. Albert B. Perlin*, pp. 160-161, 163-165. Perlin told his readers on April 5 that his Wayfarer column had "fought for what it believed to be right and just. We have contended many times that our position was not opposition to union but rather to the methods employed to obtain it. However, the events of the past few years were "now a part of the past" and that it was the duty of all Newfoundlanders to accept this fact, because the "nourishing of grievances, however just, will in this instance, lead only to harm to ourselves, our island, and our new allegiance." Newfoundlanders must be prepared, he continued, to learn more about Canada and, in turn, he hoped that "our new fellow citizens must not treat us as indigents beholden for the aid we are to receive, but a people willing to make an "important contribution to the strengthening of the Canadian nation."

[211] Peter Neary, "Party Politics in Newfoundland, 1949-71: A Survey and Analysis," in Hiller and Neary, eds., *Newfoundland in the Nineteenth and Twentieth Centuries: essays in interpretation*, pp. 219-225.

[212] Albert B. Perlin, "A Decade of Confederation: A Newfoundland Editor's Assessment," *Atlantic Advocate* (April 1959), pp. 21, 26. Perlin asserted that Newfoundlanders were "legally Canadians but they have no sense of belonging to Canada. Nobody on the mainland has ever troubled to give them reason to acquire a spiritual affinity with other Canadians. It was simply taken for granted, if indeed it was considered at all, that once Newfoundland became a province its people would immediately assume with pride and joy the status of Canadian citizenship. That has not happened. It will not happen until good spiritual and material reasons for the adoption of a new patriotism have been supplied."

[213] McAllister, ed., *Newfoundland and Labrador: The First Fifteen years of Confederation.*

[214] Albert B. Perlin, "Has Confederation Lived up to Expectations?" *The Newfoundland Record*, 2/1 (January-March 1963), pp. 29-30.

[215] Albert B. Perlin, "Notes and Comments on Confederation," *Newfoundland Quarterly*, Vol. LXX, no. 4 (Fall 1974), pp.3-5. What was true in 1974 of the province's reliance on Ottawa for social capital is even more so in 2003.

[216] A collection of the presentations are available in the *Newfoundland Quarterly*, vol. LXXIV, no. 1 (Spring 1978).

[217] Government of Newfoundland and Labrador, *Managing All Our Resources: A Development Plan for Newfoundland and Labrador, 1980-85* (October 1980).

[218] *Canada Conference '99. History in the Making: Conference Proceedings, March 29-31, 1999, St. John's, Newfoundland* (The Council for Canadian Unity and Memorial University of Newfoundland, 1999).

[219] Gary Levy, "Encounters with the Wolf," *Canadian Parliamentary Review* (Summer 1999), pp. 24-27. On the impact of Eaton's catalogue in one outport, see Jane Hutchings, "Eaton's Catalogue," in Hoddinott and Winsor, eds., *A Women's Labour*, pp. 51-53.

[220] Thoms, ed., *Fifty Golden Years. The Illustrated History of Newfoundland and Labrador's Union with Canada.*

[221] Neary, *Newfoundland in the North Atlantic World, 1929-1949*, p. 354.

[222] Jeff A. Webb, "The way it was done: How Newfoundlanders chose Confederation," *Newfoundland Quarterly* (Christmas 2002), p. 27.

[223] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 11.

[224] Hiller, *Confederation: Deciding Newfoundland's Future, 1934 to 1949*, p. 11.

[225] James K. Hiller, "Twentieth Century Newfoundland Politics: Some Recent Literature," *Acadiensis*, 19/1 (1989), pp. 181-192.

[226] See the Memorial University *Gazette* for June 8, 2000, available at http://www.mun.ca/univrel/gazette/1999-2000/June8/padd.html.

[227] Some glimpses of the lives of outport women before 1949 can be gleaned from a number of published accounts, including the following: Murray, *More than 50%;* Ryan, *Outport Girl*; Giovannini, *Outport Nurse*; Winsor, *Newfoundland Nurse*; Layman, *That Part of my Life*; Edwards, *St. Lawrence and Me*; Mifflen, *Journey to Yesterday*; Morgan, Porter and Rubia, eds., *from this place*; The On Going Book Committee, *The Savour of Things Past*; Green's *Don't have your baby in the Dory!*; Bath, *The Changing Role of Women in the Newfoundland Fishery*, and the various issues of the Labrador heritage magazine, *Them Days*. Life of pre-1949 St. John's is described in Porter, *Below the Bridge* and her "The Road Taken," in TickleAce 30 (2000), pp. 61-69. There are also a number of published memoirs by outport men about the pre-1949 period. These include Barbour, *Coming Home*; Russell, *Memories of a Lifetime*; Tizzard, *On Sloping Ground*; Sparkes, *The Winds Softly Sigh;* and Harris, *Growing Up with Verse*. Life in pre-1949 St. John's is recalled in Horwood, *A Walk in the Dreamtime*.

[228] The recent work of Memorial University religious Professor Hans Rollmann on the response of the various denominations and their leaders is an excellent departure in this direction. In 1999 Rollmann wrote a monthly column for the St. John's *Telegram* on the role of the churches and Confederation.

[229] On the conspiracy theory of Confederation, see the following: Walsh, *More Than a Poor Majority*; Peter Neary, "Newfoundland's Union with Canada, 1949: Conspiracy or Choice?" *Acadiensis*, 12/2 (Spring 1983), pp. 110-119; John E. FitzGerald, "Newfoundland Politics and Confederation Revisited: Three New Works," *Newfoundland Studies* 9/1 (Spring 1993), pp. 103-124; and Jeff A. Webb, "Confederation, Conspiracy and Choice: A Discussion," *Newfoundland Studies*, 14/2 (Fall 1998), pp. 169-187.

[230] See the Memorial University *Gazette* for June 8, 2000, available at http://www.mun.ca/univrel/gazette/1999-2000/June8/padd.html.

[231] Examples of this literature include the following: Walsh, *The Moon Shone Bright*; Johnston, *Baltimore's Mansion: A Memoir* and *The Colony of Unrequited Dreams*; and *TickleAce*, Number 37, Special Confederation 50 issue. For a discussion of cultural nationalism that emerged in the 1970s, see Sandra Gwyn, "The Newfoundland Renaissance," *Saturday Night* (April 1976), pp. 38-45; and Ronald Rompkey, "The Idea of Newfoundland and Arts Policy since Confederation," *Newfoundland Studies*, 14/2 (Fall 1998), pp. 266-281.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Newfoundland and Labrador History in Canada, 1949-1972

— Miriam Wright

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Newfoundland and Labrador History in Canada, 1949-1972 93

Appendix A - Earned Income, Per Capita 109
Appendix B - Provincial Unemployment Rate 109
Endnotes 110
Bibliography 113

Joseph R. Smallwood, the man who presided over Newfoundland as its first premier from 1949 to 1972, never seemed to tire of listing the changes in Newfoundland society that had occurred since Confederation.[1] From counting the numbers of indoor toilets in Newfoundland schools, to the massive scale of development at the hydro-electric project at Churchill Falls, the continual reminders of these changes became integral to Smallwood's public persona.[2] While Smallwood had clear political motivations for regaling the electorate with the changes that had occurred since Confederation, no one can deny that the first two decades after 1949 did bring some fundamental transformations to Newfoundland. Politically, the former British colony underwent the adjustment of becoming a province of Canada, after having given up Responsible Government in the 1930s for Commission of Government. Becoming a part of Canada, in some ways, meant changes in people's relationship to the state, as the people of Newfoundland felt the effects of the emergence of the Canadian "welfare state" emerging after World War II. While the economic developments in Newfoundland and Labrador were never as far-reaching and complete as Smallwood and many of the political planners had hoped, the 1950s and 1960s did see Newfoundland drawn more closely into a North American industrial economy, particularly in the fishery, forest products, mining and energy. Newfoundland experienced profound changes, as social welfare programs, education, roads, communications, and utilities became a part of the lives of its inhabitants. Indeed, finding a way to provide all these new services to the hundreds of small, primarily fishing communities became a major occupation with provincial governments in this period, and both federal and provincial governments tried to encourage consolidation and centralization of rural communities through various resettlement plans. Despite these transformations and a rich resource base, however, the vision for an economically prosperous Newfoundland promised by Smallwood never quite materialized.

This paper will examine the literature on Newfoundland from Confederation to 1972, focussing on the political, social and economic history of the province. In particular, it will consider scholars' explanations for Newfoundland's position as a "have not" province, and their evaluations of attempts by both the federal and provincial governments to alleviate social and economic problems in the region. It will begin by providing an overview of the history of the period, outlining the political background to Newfoundland's entry to Confederation, the economic transitions, social change, and the uneven results of two decades of "development." Then, this paper will look at writing on the political history of this period, looking at the political culture and the figure of Smallwood in these critical years. As well, it will discuss federal-provincial relations in the first decade after Confederation, as Newfoundland made the transition to a province of Canada. After considering the political history of Newfoundland, this paper will then look more broadly at writing on social and economic conditions in the province and the various development strategies employed by federal and provincial governments. Finally, this paper will examine the writing on development plans and policies for fisheries in Newfoundland in this period, and their impact on the men and women who continued to depend on the sea for their livelihood .

The first half of the 20th century was a particularly turbulent period in Newfoundland's political life.[3] Crises in the fishing economy, the heavy burden of debt left after World War I, and largely unsuccessful attempts at bringing industrial development to Newfoundland through railway ventures proved devastating to an already unstable political system.[4] After the onset of the Great Depression of the 1930s, the former colony was close to bankruptcy, and the Liberal government of Richard Squires faced accusations of corruption and financial-wrongdoings. Squires lost the 1932 election to Frederick Alderdice, of the newly-formed United Newfoundland Party. Alderdice agreed to a Royal Commission to examine the political and economic problems of the country. The 1933 "Amulree Report" recommended a "rest" from politics and the creation of an appointed Commission of Government to administer the affairs of Newfoundland until the economic crisis was resolved.[5] In 1934, a six-member Commission of Government, comprised of mainly career civil servants and administrators from Britain and Newfoundland was appointed to govern the troubled country. This Commission of Government remained in place until 1949, when Newfoundland became a province of Canada.

Political life after Confederation was no less difficult, as responsible government was restored and Newfoundland settled into the federal framework as a province of Canada. The premier, Joseph R. Smallwood, dominated political life in this period, as he translated his folksy, charismatic powers of persuasion into a political machine that won six consecutive provincial elections. Despite his electoral success, Smallwood and his governing Liberals faced the difficult task of trying to provide services and employment to the province's rural population. Smallwood embarked on several highly-publicized campaigns to develop the economy in these years, the first of which was the creation of a series of light industry manufacturing companies in the early 1950s.[6] Most of these firms, established with European entrepreneurs and technology, but with funds from Newfoundland, had failed by the mid-1950s. Not fazed by the setback, Smallwood continued to launch major resource development projects, carried out largely by capital interests from outside the province.[7] Relying on outside capital certainly had its benefits for Smallwood, who had limited resources to invest in economic development. For the outside developers, they received access to the resources, plus a cheap supply of labour – the people of Newfoundland. These projects, included the iron-ore mine in Labrador, the Churchill Falls hydro-electric development, the Bay d'Espoir Generating Station and the Stephenville Liner Board Mill.[8] One of the most controversial and costly projects of the early 1970s was an oil refinery at Come-by-Chance built by businessman John Shaheen, which received financial assistance from both the federal and provincial governments. The refinery, like the Stephenville Liner Board Mill and several other projects, were financial failures. While in the short term, people from Newfoundland benefited from the construction jobs these projects provided, the long-term return on the resources was limited. Indeed, the developers of the iron ore operations in Labrador and the Churchill Falls hydro-electric project continue to profit from the resources, decades after the last construction job ended.

These industrial projects initiated by Smallwood were representative of the broader transition occurring in the Newfoundland economy after Confederation. Historically, Newfoundland's economy was based on the rich resources of Atlantic cod that inhabited the large continental self off the coast of the island and Labrador.[9] Since the early nineteenth century, most of the fish was caught by inshore fishing people living in the hundreds of outports along the coastline of the island and Labrador. A smaller part of the fishing population was engaged in offshore "Banks" fisheries, based in the ice-free ports of the south coast of the island and St. John's. Most of the fish was dried and salted, and sold in markets of southern Europe, the West Indies and South America. Far from being completely dependent on a single resource, however, fishing families made use of a variety of local resources such as wild game, seabirds, seals, whales, wild berries, and household gardens to supply their members with sustenance. During

World War II, a new, industrial sector based on frozen fish emerged, providing employment in processing plants and on offshore fishing trawlers. While the majority of fishing people remained attached to the small-boat, inshore fishery, the saltfish sector gradually declined, as did local reliance on merchant credit, which had been the foundation of the inshore saltfish sector.

Formal economic activity outside the fishery, however, was limited. St. John's had a small manufacturing sector, providing products for local consumption. The forest industry supported two pulp and paper mills, one at Grand Falls (1909), and the other in Corner Brook (1925) on the island's west coast.[10] The largest of Newfoundland's mining operations was at Bell Island, where iron ore was extracted. Other mining enterprises included base metals at Buchans and a fluorspar mine at St. Lawrence. These operations, however, were small relative to mineral development in other areas of the Atlantic region. Newfoundland's non-fishing economy began to diversify during World War II, when Canadian and American military bases provided thousands of construction jobs and other work for rural Newfoundlanders. After Confederation, opportunities arose particularly in the construction and public works projects, mineral development in Labrador as well as the growing service sectors.

While the changes to the economy were occurring gradually, the more dramatic transformations in Newfoundland society were in the areas of social welfare and services.[11] The standard of living rose with the infusion of cash payments to Newfoundland families through federal programs such as Family Allowance, Unemployment Insurance and Old Age Pensions. The Smallwood government expanded education and developed a regional secondary school system outside of St. John's. While the denominational character of these schools remained, as Noel argues, government infusion of money into education in the years after Confederation did make education more accessible, particularly to rural children and working class people of St. John's.[12] Post-secondary education, including Memorial University (formerly, it had been a non-degree-granting college), trade and vocational training, and a college of fisheries and navigation, all emerged during the 1950s and 1960s. Health care also received attention, and the people of Newfoundland were generally healthier, succumbing to diseases such as tuberculosis and diphtheria far less frequently.[13] Another major area of change was in transportation and communications. The provincial government invested heavily in roads and communications, which linked many rural communities both physically and culturally to other parts of Newfoundland, and to North America itself. Indeed, the roads, along with radio and later television, would play a large role in transforming popular culture, leading to changes in entertainment, local customs and even to local dialects and speech patterns.

Despite these dramatic changes in the way of life for people of Newfoundland during the Smallwood years, Newfoundland remained on the margins of North American prosperity. While the population of Newfoundland had increased significantly during these years, the number of people leaving the province in search of work was high as well, averaging 3-4,000 per year between 1957 and 1971. [14] Although per capita incomes rose after Confederation, they remained low relative to those in other parts of Canada (Appendix A). As well, unemployment rates in the province were consistently the highest in the country (Appendix B). Results from attempts at diversifying and expanding the industrial and resources sectors were uneven. The manufacturing base remained small, and local commercial and retail enterprises met considerable competition from larger firms from the mainland. Newfoundland's natural resources, particularly in minerals and forestry, generated revenues, but the people of the provinces received few benefits outside a few jobs, as most of the profits left the region. Employment in the resource sector did not increase substantially, as only 25 percent of the labour force found work in fishing, mining and forestry.[15] By the early 1970s, Newfoundland was still heavily dependent on transfer payments from Ottawa.

In trying to understand why Newfoundland experienced these difficulties in these post-Confederation years, a few scholars have examined its political culture and the dominance of its first premier, Joseph Smallwood. S.J.R. Noel, in his analysis of 20th-century Newfoundland politics, argues that despite becoming a province, the political culture and attitudes in Newfoundland remained similar to what they were before Commission of Government.[16] Denominationalism was still present, along with patronage. In fact, he sees strong similarities between the Squires governments of the 1920s and 1930s with the Smallwood governments of the 1950s and 1960s, particularly in the drive for resource and industrial development. Noel claims that by the 1960s, the Newfoundland electorate was gaining some political sophistication and was better able to understand the distinctions between the jurisdictions of the federal and provincial governments (he notes that Smallwood intentionally tried to blur the lines). The local party structures, however, remained weak in the 1960s, he claims, as Smallwood still retained strong personal influence over local riding associations and the Liberal Party itself. At the time Noel's book was published (1971), Smallwood was still clinging to power, and Noel was looking forward to the broadening and maturing of Newfoundland politics.

Historian Peter Neary, in his analysis of politics in Newfoundland during the Smallwood years, also noted that strong, locally-based democratic practices and values did not emerge in the province immediately after Confederation.[17] He argued that from 1949 to 1957, the major development in Newfoundland politics was the rise to power and influence of Smallwood. In particular, Neary detailed Smallwood's personal control over not only both federal and provincial Liberal party machinery, but also the way he seemed to take personal credit for federal programs coming from Ottawa. Neary suggested that Smallwood was able to do this, partly because of his considerable speaking and persuasion skills, as well as the public's continued identification of the opposition Conservatives with the anti-Confederation campaign. Neary also argued that Smallwood was able to centralize power because the people of Newfoundland, to that point, had not had a lot of experience with democratic institutions. Years of Commission of Government, along with the absence of local government and few municipalities, meant that many people expected politics to work that way. Neary says that Smallwood was able maintain his, and the Liberal party's hold over Newfoundland politics during the period from 1957 and 1968, despite the election in 1957 of the Diefenbaker Conservatives in Ottawa. Although left without his "direct line" to the federal cabinet during the Diefenbaker years, Smallwood was still able to rally support in the province.

By the late 1960s, however, Smallwood's political power and influence had been undermined, partly by increasing economic and financial crises in the province. It was becoming clear that development strategies which relied on outside capital had failed to diversify the economy and reduce dependence on the fishery for employment. Neary argued that the Canadian version of federalism, which had left responsibility for economic development to the provinces, played a role in Newfoundland's inability to take greater control over its resources and the way they were exploited. He suggested, "The capital for an alternative strategy of public ownership and development might have been mobilized by the federal government but this course was never contemplated either in St. John's or Ottawa."[18] Instead, Newfoundland's economy continued to decline, while the value of the minerals and hydro-electric power shipped out of the province rose. Neary argued that "What Newfoundland's post-Confederation history perhaps demonstrated above all else was how a decentralized federalism facilitated the progress of foreign capital in Canada."[19]

The figure of Smallwood himself and his politics and development strategies has, not surprisingly, attracted considerable attention in the popular political literature. Journalist Richard Gwyn, as well as former political colleagues of Smallwood, Harold Horwood and Harold Pottle, have each offered their opinions on the often contradictory, enigmatic premier.[20] Gwyn, writing while Smallwood was still in office, portrays the man as a dynamic, enterprising man, obsessed with power and progress, who, despite his flaws, brought about a "revolution" in Newfoundland society (hence the title of his book: *Smallwood: The Unlikely Revolutionary*). Horwood, writing in the 1980s, saw Smallwood's vision for Newfoundland as dated, a relic of the 19th, not the 20th century. He portrays Smallwood as increasingly being corrupted by his own power. Herbert Pottle, a former Minister of Public Works in the first Smallwood government who later spent his career in education and social welfare in Newfoundland, was particularly critical of Smallwood and his vision for Newfoundland. He claims that in the two decades following Confederation, Smallwood sacrificed long-term social, educational and economic development for projects offering short-term political rewards. In the process, he argues, the people of Newfoundland remained dependent on government and never had the opportunity to grow politically, to gain political understanding and awareness.

While each of Smallwood's biographers had their own opinions on the Newfoundland politician's strengths and weaknesses, a few aspects of his personality and background provide some insights into the way he governed the province in these years. Smallwood was clearly a man who came to the premier's role without any political or administrative experience. He was primarily self-educated and he tended to view the world, the economy and politics in fairly simplistic terms. At the same time, however, he was a very persuasive man, enthusiastic, and eternally optimistic about his abilities to solve problems, whether they be building enough roads to rural communities, to stopping out-migration through major employment schemes. Perhaps we should not be surprised at his seeming naivete in putting so much faith in some of the more outlandish development projects. Herbert Pottle argued that Smallwood was an exceptional promoter, well-suited to lead the Confederation forces in 1948, but was ill-suited to the role of running the new province. However, the question remains if another more capable politician in the premier's chair would have been able to make a difference.

While Smallwood continues to raise debate and questions, historian Raymond Blake has looked more closely at the role of the federal government in integrating Newfoundland as a province in the first decade of Confederation.[21] He argues that despite the logistical difficulties of sorting out new roles and procedure, the move was relatively smooth, made easier by the infusion of federal social welfare programs into rural communities. For example, Blake noted that the federal government quietly set up the framework to administer the Family Allowance program shortly after the Terms of Union were signed, to ensure that people could receive cheques as quickly as possible.[22] Blake claims that by the end of 1955, Newfoundland families had received $65 million in Family Allowance benefits. Likewise, the federal government created a temporary program to enable workers in Newfoundland to qualify for the Unemployment Insurance program. Since Newfoundland workers had not yet contributed to the national program and did not qualify for benefits under the normal rules, the federal government contributed funds to allow them to collect if they became unemployed. In the first year after Confederation, the federal government paid $3.2 million in Unemployment Insurance benefits to Newfoundland workers. Indeed, Blake claims the number of recipients swelled in the first few years after Confederation when Smallwood created a number of public-works projects specifically to enable Newfoundland workers to qualify for the federal program. While the Old Age Pensions took longer to implement because of the need for new provincial legislation, people qualifying for the program in Newfoundland saw their pensions rise from $72 a year to $30 a month. All in all, in the first few years after Confederation, the federal government was contributing $24 million annually to Newfoundlanders through the Family Allowance, the Unemployment Insurance program, and the Old Age Pensions.

While Blake argues the federal government fulfilled its obligations in extending social welfare programs to the people of Newfoundland, it was reluctant to provide support in the area of economic development.[23] The Association of Newfoundland Industries Limited, which represented the manufacturing sector, asked the Newfoundland delegation negotiating the Terms of Union with Canada for tax concessions and other assistance to help them make the transition. Blake notes that the secondary manufacturing sector in Newfoundland was small, but it did provide 4,000 people with jobs and relatively cheap consumer goods for the local market. Newfoundland manufacturers had been protected from competition from Canadian good through a protective tariff. In 1949, those tariffs would disappear, leaving the approximately 130 companies vulnerable to dumping of products by larger Canadian firms. As well, taxes would increase and Newfoundland manufacturers would have to switch from American to Canadian suppliers of raw materials such as steel. The negotiating team, however, failed to heed the request. As well, after Confederation, the federal Minister of Trade and Commerce, C.D. Howe, refused to give special consideration to Newfoundland manufacturers, believing that the government could not treat manufacturers in one Canadian province differently from another. Furthermore, local manufacturing was a provincial, not a federal responsibility. Blake argues that in the short term, 18 Newfoundland manufacturing companies, mostly in the area of garment-making, boot and shoe production, mattresses and tobacco, were unable to compete with Canadian firms and closed. On the other hand, however, some Newfoundland enterprises were able to withstand the competition, and took steps to improve both the quality and price of their goods.

Another issue of concern for the manufacturing industry, and in particular, the resource sector, was whether or not the Canadian government would allow foreign-owned companies in Newfoundland to retain tax breaks they had secured before Confederation.[24] The Bowaters pulp and paper operation, which was British-owned, were paying considerably lower taxes in Newfoundland than they would under the Canadian tax laws (Bowaters paid $150,000 annually before Confederation. Under Canadian tax law, the company would have to pay approximately $1 million annually). While the chairman of the company, Sir Eric Bowater, lobbied the Newfoundland delegation negotiating the terms of union, his efforts had few results.

Blake concludes that in many ways, the transition to provincial status for Newfoundland was successful.[25] Federal social services extended to the people of Newfoundland helped improve the standard of living by raising monthly cash incomes. As well, the dropping of trade barriers with Canada and competition with mainland goods led to a reduction in prices for consumer goods. On the other hand, however, neither Confederation nor the continuing relationship with the federal government was able to erase economic problems in the new province. Blake argues that the limitations of the Terms of Union (specifically the lack of attention to assistance in economic matters) as well as the federal government's reluctance to provide help to Newfoundland's economy in the post-Confederation years, contributed to the province's inability to become prosperous.

While the politics of Newfoundland provides a starting point for an understanding of post-Confederation society, other scholars have looked more broadly at social and economic issues in this period. Some of the first academic studies on Newfoundland's economy and society during these years came from scholars, primarily anthropologists, sociologists and ethnographers from Europe and the United States who studied rural communities in the early 1960s.[26] These academics, who were funded by the newly-formed Institute of Social and Economic Research at Memorial University, conducted fieldwork in Newfoundland's outports and later wrote a series of community studies.[27] Much of this work was informed by variations of "modernization theory," which offered a dualistic model of economic development consisting of "traditional" and "modern" societies.[28] According to this model, "traditional" societies were characterized by labour intensiveness, occupational pluralism, with low levels of technology, entrepreneurship and capital. Conversely, "modern" societies were innovative, highly capitalized with high levels of technology and an educated and specialized workforce. Believing that they were witnessing the shift from a pre-industrial, simple, autonomous society untouched by modern values to an industrial society, these scholars found Newfoundland an interesting "social laboratory." This modernization model has been criticized, however, for focussing on internal factors such as technology and entrepreneurship, but ignoring other factors in social and economic change such as capital structures and class relations, gender and race relations, colonialism and other unequal power relationships. Later social theorists also argued that the model was static and ahistorical and did not adequately explain why and how change occurred. While these early community studies looked at changes occurring in this period, many failed to place these changes within a wider historical context. Nevertheless, these studies provided some insights into these communities in the 1960s and influenced later work.

By the late 1960s and early 1970s, however, scholars turned their attention to the impact of federal and provincial social and economic policies after Confederation.[29] One of the more visible manifestations of state intervention in Newfoundland society was the resettlement program. In the years following Confederation, thousands of people living in small fishing communities migrated into larger centres, some on their own, and others through government-sponsored programs. In the 1950s and early 1960s, in a move to reduce costs of providing services to smaller outports, the Newfoundland government provided financial assistance for those willing to move to larger centres. Beginning in 1965, the provincial government entered into a joint program with the federal government to encourage applicants to move to designated "growth centres" instead of being allowed to move to a community of their choice. This program was loosely based on the "growth pole theory" which was current in regional development policy in the 1960s and early 1970s.[30] It assumed that development concentrated in specific centres would generate further development, through economic spin-offs and spread effects. While the program generated some controversy among the population, thousands of people moved. By the early 1970s, there were some 200 fewer rural communities in Newfoundland than there had been at Confederation.

Some scholars who examined this period in Newfoundland lauded these efforts, whereas others questioned both the efficacy, and the motivations of the government, as well as the underlying causes for regional disparity. Sociologists Noel Iverson and Ralph Matthews argued that the program did not provide enough support for those making the transition, and most had trouble finding work in the designated "growth centres."[31] Indeed, they argued that many resettled fishing people ended up having to return to their former communities to fish, as they had little means of earning a living in their new homes. More recently, anthropologist John C. Kennedy has made similar arguments about the resettlement experience for people of southeastern Labrador. Between 1967 and 1970, one quarter of the population of the area moved to designated centres, mostly Cartwright and Mary's Harbour. [32] People agreed to move, partly for economic reasons (the cod fishery was declining in the late 1960s) and partly to obtain better education for their children. The results, however, were mixed, as many resettled families returned to their summer fishing grounds throughout the 1970s. Many also lost access to winter resources, including hunting and trapping due to local competition for these resources in their new communities. Resettlement also created social divisions within the designated centres, as "new" residents often lived separately from the "old" residents.

Conversely, Parzival Copes, a researcher who came to Memorial University in the 1960s, defended the resettlement program.[33] He supported the removal of people from outport communities because he believed that the fishery, the primary occupation of people of rural Newfoundland, had limited potential for economic growth. He maintained that profit could be made only by increasing the volume of the catch, and he thought the supply could only support a small workforce. Catching fish from small boats was inefficient, he claimed, and could be done more effectively through centralized operations, using offshore trawlers. He believed that the fishery was not capable of supporting a growing population, and resettlement, he claimed, was the only solution. Not only did he think that the resettlement program was worthwhile, but he thought it did not go far enough in encouraging people to leave. Indeed, he argued that the government should be encouraging people to leave the province itself, not just the fishery. Copes' views were controversial, yet the accusation that there were "too many fishermen catching too few fish" has been a common refrain among federal fisheries analysts and other critics of the inshore fishery in the years since. Copes' arguments, however, made the assumption that sheer volume was the only answer to developing the fishery. At the time that Copes was writing, most of Newfoundland's frozen fish was sold in large blocks, then sent to the United States where it received further processing. It was in this "value-added" step of processing where the profits on frozen fish were generally made.

Other scholars, however, were beginning to offer broader critiques of the development policies of the post-Confederation years, and interpretations on the reasons for regional disparity. Influenced by Marxist-based theories of capitalist underdevelopment of marginal regions as well as "dependency" theorists of Latin America, they looked to the wider economic and capitalist structures of the area. The work of Henry Veltmeyer, Steven Antler, and Ellen Antler, among others, examined the class structure, rather than local geographic or resource issues, to explain regional poverty.[34] Ellen Antler and James Faris, in their study of a resettled community on the northeast coast of Newfoundland, claim that the social and economic policies of the federal and provincial governments in these years were motivated to create a "reserve army" of labour.[35] Seeing the state as catering to the demands of large-scale capital, Antler and Faris argue that the resettlement program was an example of an attempt to proletarianize the labour force, to reduce attachments to the fishery so that labour would be free for work on either the mainland, or shorter-term construction projects such as the Churchill Falls hydro-electric development. While this analysis fails to explain why governments would go to such lengths when labour needs were relatively small in the region, and were adequately served on the mainland, the work did generate interest in the broader questions about capital structures and regional poverty.

Other scholars, who were also influenced by the "dependency" theorists but who paid closer attention to the historical specificity of the region also tried to understand the failure of Newfoundland to thrive economically in the two decades following Confederation, included historian David Alexander and sociologist Ralph Matthews. Alexander, in an influential article "Development and Dependence in Newfoundland, 1880-1970," argued that lack of resources or comparative locational advantage did not cause Newfoundland's poverty. Instead, he suggested that Newfoundland had adequate resources and talent to prosper, but that poor management, and an inability to defend its interests against wealthier regions hindered development.[36] He also faulted the local entrepreneurial elites for failing to take opportunities that would have led to a stronger local economy. Alexander claimed Newfoundland suffered from trying too much to imitate the industrial model of central Canada, a tactic which leads to the peripheral region achieving only "a shabby dignity or a shabby replica of what exists in the heartland."[37] Instead, he suggested that areas such as Newfoundland must find their own, unique path to development, using a strategy that builds upon the strengths and advantages of the region.

Ralph Matthews, while sharing Alexander's beliefs that Smallwood's post-Confederation development projects contributed to regional dependency, argued that Newfoundland nevertheless posed considerable challenges to anyone trying to find a way to provide employment and services to its population. [38] The population in Newfoundland grew rapidly in the post-war years, rising from 361,416 in 1951 to 457,853 by 1966. Over 40 per cent of the 1951 population was classified as urban, concentrated mainly on the Avalon Peninsula and the Humber Valley. However, the rural inhabitants were scattered widely along the thousands of miles of coastline. These demographic and geographic features made it difficult for government to deliver basic services such as education and health care. As well, the distance from major markets, and the high rates of illiteracy in Newfoundland (twice the national average), despite the growth of the education system, provided major impediments to social and economic development. While Matthews credits Smallwood for transforming rural Newfoundland through roads, schools and mass communication, Smallwood's attempts at economic development only deepened the economic weakness of the area. Matthews acknowledged that the Smallwood government had little choice in relying on outside capital for large-scale resource development projects. In doing so, however, the province gave up valuable long-term benefits from the resources for short-term employment, such as in the case with Churchill Falls power development. Matthews was highly critical of the Smallwood government's rural policy, which focussed on resettlement, rather than actually trying to make the rural economy stronger. He suggested that focussing on small and medium-scale projects, using local resources for local consumption, would provide greater benefits (and be less costly) than the "mega-projects" favoured by the Smallwood governments. Matthews noted that:

> Few small societies ever have the opportunity to alter their economic history completely and move from economic dependency to self-sufficiency. Whether or not Smallwood's government was given that opportunity in 1949 will always be a matter of conjecture. By 1972, however, its dependency was so severe that self-sufficiency no longer seemed possible.[39]

Matthews believed that Newfoundland entered Confederation with severe handicaps, including isolation and illiteracy. While the two decades following 1949 did reduce some of these problems, Smallwood's development policies ended up benefiting outside capital at the expense of the people of Newfoundland, who receive few returns on the mass export of minerals and hydro-electric power.

Although Smallwood and the provincial government were largely alone in their attempts to bring industries to Newfoundland in the 1950s, the federal government initiated a wider program of regional economic development in the Atlantic provinces in the 1960s.[40] The 1957 Royal Commission on Canada's Economic Prospects, chaired by Walter Gordon, recommended that the federal government turn its attention to supporting the economies of economically weak areas of the country, including the Atlantic region. The Diefenbaker government introduced the first of several programs aimed at developing agricultural areas in the Atlantic provinces. Newfoundland, however, received little of this federal funding until the end of the 1960s, when Ottawa created the Department of Regional Economic Expansion (DREE). Like the earlier federal-provincial resettlement program, DREE loosely employed "growth pole theory" to designate "special areas" for development. Unlike the agricultural programs of the early 1960s, DREE focussed primarily on urban and industrial development, and provided infrastructure assistance, incentives to private enterprise, educational and technological support. DREE embarked on these projects, sharing the costs with provincial governments. In Newfoundland, in the late 1960s and early 1970s, St. John's received many of the DREE projects, including an industrial park, new water and sewage systems, a new high school and an engineering building for Memorial University.

As both Ralph Matthews and sociologist Donald Savoie have noted, however, DREE came under attack fairly early in the program.[41] Critics argued that the Liberal government favoured its own supporters in awarding grants and incentives to private enterprise. Provincial governments complained that they had little influence on policies created by the highly-centralized DREE organization. Concerns were also raised about the heavy emphasis on infrastructure at the expense of other types of projects. As well, the Newfoundland government was afraid that companies receiving incentives to set up operations in Atlantic Canada would choose Halifax over St. John's. After several years of the program, few saw any signs that DREE had made a difference in alleviating regional inequalities. The department underwent several structural and organizational changes in the 1970s, before finally being disbanded at the end of the decade.

Strains in the federal-provincial relationship were also evident in fisheries issues after Confederation. When Newfoundland became part of Canada, responsibility for sea fisheries transferred to Ottawa. Several scholars have tried to understand the implications of this event, as well as the broader fisheries development agendas of the post-Confederation years. One of the most influential works on this period was David Alexander's *The Decay of Trade: An Economic History of the Newfoundland Saltfish Trade, 1935-1965*.[42] Alexander saw the collapse of what was once the world's largest saltfish-producing economy as a major blow to the viability of the Newfoundland's fishery in the 20th century. He acknowledged that by the time the Great Depression sent saltfish prices spiralling downward, the saltfish economy in Newfoundland needed help in the form of new investment, processing methods, organization and marketing. While he believed that the Commission of Government's creation of a marketing body, Newfoundland Association of Fish Exporters's Limited (NAFEL) after World War II was a promising step, Alexander argued that the organization was never able to surmount the larger problems experienced in the trade. Marketing and currency exchange difficulties in post-war Europe, the inability to deal with quality and production problems, the movement of local fish merchants out of the business were certainly contributing to the decline of the sector.

Alexander, however, was particularly critical of the federal government and its apparent lack of interest in revitalizing the saltfish trade. Alexander remarked that "The saltfish trade was never regarded as a jewel in the crown of the federal Department of Fisheries."[43] Indeed, in the post-Confederation years, both federal and provincial governments favoured supporting the frozen fish sector, believing that its industrial structure and markets in the United States offered a more secure future for the fishing economy. Alexander, however, saw potential for the saltfish economy, arguing that with market development, research in saltfish production methods and products, greater interest from local fishing companies, and the commitment of the government, the saltfish economy may have been restored. The fact that the frozen fish industry failed to offer the economic security it initially promised suggested to Alexander that developing the saltfish sector may have lessened Newfoundland's dependence on Ottawa for support. Alexander claims that instead, "the fishery resource was abandoned to other countries, the economic development of the province was seriously weakened; and a modest little trade with the United States was substituted for the restoration of Newfoundland's historic role as a major world fishing nation. Both Newfoundland and Canada lost in the process."[44] While Alexander perhaps overestimated the ability of the fishing industry and even the Canadian government to deal with the larger problems that occurred in the post-World War II years, he certainly raised important questions about decisions made regarding fisheries development by the state.

Indeed, more recently, Miriam Wright has examined the role of the state in supporting the industrial, frozen fish sector in the post-World War II years in her book, *A Fishery for Modern Times: The State and The Industrialization of the Newfoundland Fishery, 1934-1968*.[45] She argues that state planners and politicians supported the industrial fishery, partly because it seemed to solve some of the production and marketing difficulties in the industry, and partly because it seemed to represent a "modern" model of development. In the post-World War II years, currents in thinking on economic and social development suggested that the path to prosperity was through technology, centralization, industrialization and professionalization (this was a variant on "modernization theory," similar to the social models used by the anthropologists who first studied Newfoundland communities in the 1960s). Planners and politicians believed that "modernizing" (i.e. industrializing) the fishery was a necessary part of the wider transformation of Newfoundland society and culture in the 1950s and 1960s. Wright argues that this profound faith in the ability of "modernization" to solve social and economic problems in outport Newfoundland blinded at least some politicians to other models of development that were more community-based and less capital intensive.

Initially, the Smallwood government provided most of the funding for fisheries "modernization," which involved providing loans to private operators to build frozen fish processing plants and trawlers. Although a joint federal-provincial commission on fisheries development in the early 1950s suggested that Ottawa and St. John's work together on a larger fisheries program, the federal government ultimately declined to support such a venture. Arguing that they could not provide funds for economic development to one province and not another, the federal government instead supported "modernization" indirectly, through research and technological development programs.

By the 1960s, however, conditions in the fishery had changed rapidly with the rise of European distant-water fleets which began fishing off the coast of Newfoundland. Between the mid-1950s and the mid-1960s, the total catch of cod off the coast of Newfoundland tripled. This increased fishing effort began to have an impact on inshore and offshore fish landings in Newfoundland. Although the federal government's extension of the Unemployment Insurance program to include fishers in the late 1950s had made fishing incomes more stable, many inshore fishers were having trouble surviving in this new environment. In the early 1960s, the Smallwood government began pressuring the federal government to provide more assistance to the Newfoundland fishery. Although it declined to take part in a wider fisheries development proposal submitted by the Newfoundland government, the federal government did begin to take a more interventionist role in the fishery. It made several (unsuccessful) attempts at limiting foreign offshore fishing by extending the fishing limit (the territorial limit was only three miles until it was extended to 12 miles in 1969). As well, the federal Department of Fisheries began to offer subsidies for trawlers and larger vessels used in the inshore fishery. These measures, however, were unable to alleviate some of the larger problems in the Newfoundland (and Atlantic) fishery in this period. Severe declines in landings in the late 1960s and early 1970s, as well as glutting in the American markets which kept prices low, made surviving in the fishery difficult. Over the long term, approaches to development which focussed on intensifying industrial capacity in the fishery contributed to the devastation of the resource in the 1980s and 1990s.

Sociologist Peter Sinclair has also examined the changes in the fishery in the post-World War II years, focussing on the impact of state policies, both federal and provincial, on the social relations of the fishery at the community level. [46] In particular, he looks at the way that government policies have affected fisheries management, the capital accumulation process and maintaining fisheries incomes through loan programs, Unemployment Insurance and other forms of assistance. Sinclair notes how inshore fishing communities were transformed in these years, as the saltfish trade gave way to frozen fish, and small-scale, domestic commodity production (as he terms small boat owners) became tied to the frozen fish companies. While domestic commodity production continued to co-exist with a centralized, highly capitalized industrial fishery, community and work relations in fishing communities were altered with the rise of an intermediate-scale fishing enterprise – the longliner or dragger (decked vessels typically between 35 and 60 feet in length -- larger than the typical inshore boats which are usually less than 35 feet) beginning in the 1960s. Not only were these operations more expensive (usually supported through government loan programs and subsidies) but they led to more social distinctions between captain/owner and crew, and between the owners of the larger vessels and the small-boat fishers. Social relations in the fishery were also changed in these years with the beginnings of labour organization within the fishery, first in fish plants (early to mid-1960s), then among inshore fishers (late 1960s and early 1970s) and offshore trawler crews (early 1970s).[47]

Social and economic changes in the fishery in the 1950s and 1960s also had an impact on the historical role of women in Newfoundland's fishing economy. Women's labour had been central to the household-based, saltfish-producing inshore fishery since the rise of the resident fishery in the early 19th century. [48] Women contributed to the household's survival, not only through producing items for their families' consumption such as gardening, berry-picking, cloth and clothing making, childcare and food preparation, but also through drying and curing the fish which their fathers, husbands and sons produced. Women's level of involvement in the fishery varied across time and place, depending on the local organization and seasonality of the inshore fishery, and the particular uses of technology. Women living in Bank fishing communities, for example, cured fish for the local Bank fishery merchant, rather than their own families. As Marilyn Porter and Hilda Chaulk Murray argue, women's roles as "skipper of the shore crew" gave them some autonomy within their sphere, and the respect of the community. These women existed, however, within a patriarchal framework, and their access to the fishing economy was through their fathers and husbands. Women who did not marry, or were widowed, lacked the economic security of the "shore skippers" who were typically married to boat-owning fishers. Young, unmarried women who "shipped out" or worked as domestic servants in the households of others, performing both household and fishery-related tasks found themselves in a more precarious position, socially and economically.

As the fishery began to change in the post-World War II years, with the transition from household production of salted fish to centralized processing in frozen fish plants, women's relationship to the fishery also altered. Women gradually stopped curing saltfish as fishers began selling their fish fresh to freezing plants. Some found work in these plants, where they were available. Others, however, relied on government programs that brought cash into rural households, including Family Allowance cheques, Pensions and Unemployment Insurance.

While Ellen Antler portrayed this separation of production from the household as part of the "proletarianization" of the labour force in rural Newfoundland,[49] Barbara Neis interpreted women's changing relationship to the fishery as a shift from familial to social patriarchy.[50] She argues that women moved from being part of a household-based patriarchal structure in the household saltfish enterprise to a situation where they were more dependent on the state and corporate structures - themselves imbued with gender ideology. Miriam Wright has noted the gender ideology that was an integral part of the fisheries "modernization" policies in the 1950s and 1960s, which assumed that women would be "liberated" from their work curing fish and that they would play a minimal role in the modern fishing economy.[51] Neis notes that initially, the changes in the fishing economy and society gave women some independence from the household patriarchy, by offering waged work at the fish plants (in most areas of the province, this work remained seasonal) and access to a state social welfare system. The cumulative effect of new policies, including Unemployment Insurance and minimum wage laws, however, made women more dependent on both the state and the fishing incomes of their husbands. The Unemployment Insurance program for fishers introduced in the late 1950s failed to recognize women's labour in the production of salted fish. Only men received "stamps" or credit for delivering saltfish to local merchants, even if women did the preparation and curing. Although women only rarely fished with their husbands, the women who did were not eligible for Unemployment Insurance benefits. The program stipulated that when a fisherman's wife worked as a member of the crew, and they sold their fish fresh (not dried) that the woman's share went to her husband and he received "stamps" based on their combined catch. Likewise, minimum wage laws allowed employers to pay female employees less than male workers, even if performing the same job. Women eventually organized and fought to change some of these policies, including the minimum wage law (1974) and the regulation in the Unemployment Insurance program which denied benefits to women who fished with their husbands (1981). Clearly, however, the transition from saltfish to frozen fish, and the separation of production from the household in the 1950s and the 1960s affected men and women differently.

While this paper has surveyed the scholarship on Newfoundland society from Confederation to 1972, the literature is still far from complete. Many questions remain about the Smallwood government, the impact of the resettlement program, women, aboriginal peoples, Labrador communities, resource development and fishing communities, among others. Nevertheless, looking at this literature does highlight some of the ongoing problems that Newfoundland, as a new province in Canada, faced in the first few decades. Many of these problems have had long-term consequences, some of which we still see today. First, it is clear that Newfoundland entered Confederation with some considerable challenges, including a fishing economy weakened by decades of neglect, a highly scattered population who had not had the benefit of a comprehensive education system. As well, as both Noel and Neary have noted, traditions of local democratic institutions and practices were not strong and it took decades before the people of Newfoundland were able to develop local democratic political organizations. This situation made it easy for one person, Smallwood, to maintain control over not only his own caucus and government, but both federal and provincial wings of the Liberal party. So, Newfoundland began its life as a province of Canada with difficulties.

Newfoundland also had considerable challenges in trying to deliver the promises of confederation. As Raymond Blake pointed out, the federal government quickly extended its social welfare programs to the people of Newfoundland quickly, but was reluctant to provide any support for economic development. Indeed, in the 1950s, the federal government continued to insist that economic development, whether it was the fishery or other natural resources or manufacturing, was a provincial responsibility. That left the problem, of course, of how a small province with limited finances could provide more employment for its people and make use of its mineral, hydro-electric, forest and marine resources. Smallwood opted for following an industrial model based on the mainland, and invited outside capital to develop these resource industries. While this strategy provided short-term employment opportunities, it was these outside companies, over the long term, who reaped the benefits of getting access to these resources. As Alexander and Matthews, among others have pointed out, alternative models of development that might have taken advantage of Newfoundland's strengths in local resources and skills, never featured in official plans for the province.

By the mid-1960s, it was becoming increasingly apparent that the development strategies were not working as anticipated. The federal government, which was slowly increasing its level of intervention in regional economies, took some steps to help alleviate problems in the area. It joined with the Smallwood government in planning and implementing a massive household resettlement program, aimed at reducing people's attachment to the fishery. While some communities gladly accepted the opportunity to move, for many others, the poorly-conceived attempt at "social engineering" failed to provide them with a new livelihood. The other major area of federal intervention in local economic development in the 1960s were the regional development programs, of which DREE was the most visible. Apart from a few infrastructure programs, primarily in the existing urban areas, the impact on Newfoundland was negligible. Indeed, at the end of Smallwood's years in office, Newfoundland was still heavily dependent on transfer payments from Ottawa.

While it is difficult to apply lessons from the successes or failures of development approaches of the 1950s, 1960s and early 1970s directly to the present, a study of this literature does reveal a few valuable insights. Although no one would seriously propose to resurrect the resettlement program, the overly-ambitious plan of the 1960s illustrates the folly of trying to use simplistic approaches to solve complex social and economic problems. David Alexander questioned the assumption that "successful" economies have to follow the same path as those of other industrialized regions. Newfoundland had a wealth of resources and some unique products, but a lack of control over those resources, and the attempts to copy industrial development of central Canada did little to bring economic stability to the province. Likewise, Ralph Matthews questioned the tendency to put too much faith in "mega-projects" in building the economy, instead of looking for ways to use the existing strengths, resources and skills of Newfoundland on a more modest scale. Similar conclusions could be drawn from the studies of post-Confederation fisheries development and policies. As well, the research on women in the fishery suggests that we need to be aware that economic development and policies have different implications for men and women. Although the last quarter of the twentieth century brought many more changes still to Newfoundland, an awareness of paths travelled in the first few decades after Confederation may help us better understand how we arrived at the present.

Appendix A

Earned Income, Per Capita

Relation to National Average (Canada=100)

	1961	1966	1971
Newfoundland	53.2	52.5	54.8
Nova Scotia	75.0	71.5	74.2
Ontario	121.1	118.3	119.2

Source: Donald Savoie, *Regional Economic Development: Canada's Search for Solutions*, 2nd ed. (Toronto: University of Toronto Press, 1992), 191 (Statistics Canada, *The Labour Force*, 71-001)

Appendix B

Provincial Unemployment Rate

Relation to National Average (Canada = 100)

	1961	1966	1971
Newfoundland	275	171	135
Nova Scotia	114	138	113
Ontario	77	76	87

Source: Donald Savoie, *Regional Economic Development: Canada's Search for Solutions*, 2nd ed. (Toronto: University of Toronto Press, 1992), 193 (Statistics Canada, *The Labour Force*, 71-001)

Endnotes

[1] I would like to thank Adam Sparkes, Doug Brown, Robert Hong and two anonymous reviewers for comments on earlier versions of this paper.

[2] For example, see Joseph R. Smallwood, *I Chose Canada: The Premiership* (Toronto: Macmillan, 1973).

[3] Peter Neary, *Newfoundland in the North Atlantic World, 1929-1949* (Montreal and Kingston: McGill-Queen's University Press, 1988); S.J.R. Noel, *Politics in Newfoundland* (Toronto: University of Toronto Press, 1971); Gene Long, *Suspended State: Newfoundland Before Canada* (St. John's: Breakwater Press, 1999.

[4] James K. Hiller, "The Railway and Local Politics, 1870-1901" in James K. Hiller and Peter Neary, eds. *Newfoundland in the Nineteenth and Twentieth Centuries* (Toronto: University of Toronto Press, 1980.

[5] Great Britain, *Newfoundland Royal Commission Report* (London: 1933).

[6] Doug Letto, *Chocolate Bars and Rubber Boots: The Smallwood Industrialization Plan* (Paradise: Blue Hill Publishing, 1998); Gerhard P. Bassler, *Alfred Valdmanis and the Politics of Survival* (Toronto: University of Toronto Press, 2000).

[7] Michelle McBride, Gregory S. Kealey and Sean Cadigan, "Jobs at Any Cost: The Political Economy of Development in Twentieth-Century Newfoundland," in Rosemary Ommer, ed. *The Resilient Outport: Ecology, Economy and Society in Rural Newfoundland*. St. John's: ISER, 2002.

[8] Philip Smith, *Brinco: The Story of Churchill Falls* (Toronto: McClelland and Stewart, 1975).

[9] Shannon Ryan, *Fish Out of Water: The Newfoundland Saltfish Trade, 1814-1914* (St. John's: Breakwater Press, 1986); Sean Cadigan, *Hope and Deception in Conception Bay: Merchant-Settler Relations in Newfoundland, 1785-1855* (Toronto: University of Toronto Press, 1995).

[10] David Alexander, "Development and Dependence in Newfoundland, 1880-1970," in Eric W. Sager, Lewis R. Fischer and Stuart O. Pierson, eds. *Atlantic Canada and Confederation: Essays in Canadian Political Economy* (Toronto: University of Toronto Press, 1983); David Alexander, "Newfoundland's Traditional Economy and Development to 1934," *Acadiensis* 5,2 (1976): 56-78.

[11] Frederick W. Rowe, *Education and Culture in Newfoundland* (Toronto: McGraw-Hill Ryerson, 1976); Noel, *Politics in Newfoundland*, 265. Noel provided some statistical indicators of the degree of change in Newfoundland during these years, from several sources. For example, he noted that total provincial government expenditures had increased from $30,011,000 in 1950 to $157,628,000 in 1965, with spending on education jumping from $4,012,000 to $82,000,000, health climbing from $5,538,000 to $28,580,000. As well, spending on social welfare increased from $8,620,000 to $19,009,000, and expenditures on transportation and communication rose from $3,978,000 to $47,371,000. Noel showed

other areas of change, including the rise of per capita personal income from $472 in 1949 to $1,029 in 1963. Indicators of change in access to education include an increase in school enrolment from approximately 75,000 in 1949 to 144,000 in 1965 and the rise of university enrolment from 307 in 1949 to 4,762 in 1967. The number of hospital beds in the province grew from 2,000 in 1949 to 5,000 in 1964, and the working doctors increased from 150 to 330.

[12] Noel, *Politics in Newfoundland*, 261-272.

[13] Noel, *Politics in Newfoundland*, 265. Noel notes that between 1948 and 1964, mortality rates for tuberculosis and diphtheria declined by 95 per cent.

[14] Ralph Matthews, *The Creation of Regional Dependency* (Toronto: University of Toronto Press, 1983), 181.

[15] Matthews, *The Creation of Regional Dependency*, 174.

[16] Noel, *Politics in Newfoundland*, 262-285.

[17] Peter Neary, "Party Politics in Newfoundland, 1949-1971: A Survey and Analysis," in James Hiller and Peter Neary, eds. *Newfoundland in the Nineteenth and Twentieth Centuries*. Toronto: University of Toronto Press, 1980.

[18] Neary, 1980, 232.

[19] Neary, 1980, 232.

[20] Richard Gwyn, *Smallwood: The Unlikely Revolutionary* (Toronto: McClelland and Stewart, 1968); Harold Horwood, *Joey: The Life and Political Times of Joey Smallwood* (Toronto: Stoddart, 1989); Herbert L. Pottle, *Newfoundland: Dawn Without Light: Politics, Power and the People in the Smallwood Era* (St. John's: Breakwater Press, 1979).

[21] Raymond Blake, *Canadians At Last: Canada Integrates Newfoundland as a Province* (Toronto: University of Toronto Press, 1994).

[22] Blake, *Canadians At Last*, 70-93.

[23] Blake, *Canadians At Last*, 94-114.

[24] Blake, *Canadians At Last*, 114-121.

[25] Blake, *Canadians At Last*, 177-184.

[26] Examples of these community studies include: Tom Philbrook, *Fisherman, Logger, Merchant, Miner: Social Change and Industrialism in Three Newfoundland Communities* (St. John's: ISER, 1966); James Faris, *Cat Harbour: A Newfoundland Fishing Settlement* (St. John's: ISER, 1966); Melvin Firestone, *Brothers and Rivals: Patrilocality in Savage Cove* (St. John's: ISER, 1967).

[27] J.D. House, "ISER: Retrospect and Prospect," in *ISER Research Policy Papers, No. 15: Special Edition* (St. John's: ISER, 1992).

[28] David Harrison, *The Sociology of Modernization and Development* (London: Unwyn Hyman, 1988).

[29] Noel Iverson and Ralph Matthews, *Communities in Decline: An Examination of Household Resettlement in Newfoundland* (St. John's: ISER, 1968); Ralph Matthews, *There's No Better Place Than Here: Social Change in Three Newfoundland Communities* (Toronto: Peter Martin Associates, 1976); Parzival Copes, *The Resettlement of Fishing Communities in Newfoundland* (Ottawa: Canadian Council on Rural Development, 1972).

[30] Matthews, *The Creation of Regional Dependency*, 106.

[31] Iverson and Matthews, *Communities in Decline*.

[32] John C. Kennedy, *People of the Bays and Headlands: Anthropological History and the Fate of Communities in the Unknown Labrador* (Toronto: University of Toronto Press, 1995).

[33] Copes, *An Examination of Household Resettlement in Newfoundland.*

[34] Henry Veltmeyer, "The Capitalist Underdevelopment of Atlantic Canada," in Robert J. Brym and R. James Sacouman, eds. *Underdevelopment and Social Movements in Atlantic Canada* (Toronto: New Hogtown Press, 1979); Steven Antler, "The Capitalist Underdevelopment of Nineteenth Century Newfoundland" in Brym and Sacouman, eds. *Underdevelopment and Social Movements in Atlantic Canada.*

[35] Ellen Antler and James Faris, "Adaptation to Changes in Technology and Government Policy: A Newfoundland Example," in Raoul Anderson, ed. *North Atlantic Maritime Cultures* (The Hague, Mouton, 1979).

[36] Alexander, "Development and Dependence in Newfoundland, 1880-1970."

[37] Alexander, "Development and Dependence in Newfoundland, 1880-1970," 24.

[38] Matthews, *The Creation of Regional Dependency*

[39] Matthews, *The Creation of Regional Dependency, 193.*

[40] Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions, 2nd ed.* (Toronto: University of Toronto Press, 1992); Matthews, *The Creation of Regional Dependency.*

[41] Savoie, *Regional Economic Development*, 38-67; Matthews, *The Creation of Regional Dependency*, 99-108.

[42] David Alexander, *The Decay of Trade: An Economic History of the Newfoundland Saltfish Trade, 1935-1965* (St. John's: ISER, 1977).

[43] Alexander, *The Decay of Trade*, 130.

[44] Alexander, *The Decay of Trade*, 164.

[45] Miriam Wright, *A Fishery for Modern Times: The State and the Industrialization of the Newfoundland Fishery, 1934-1968* (Toronto: Oxford University Press, 2001).

[46] Peter Sinclair, *From Traps to Draggers: Domestic Commodity Production in Northwest Newfoundland, 1850-1982* St. John's: ISER, 1985; Peter Sinclair, *State Intervention and the Newfoundland Fisheries: Essays on Fisheries Policy and Social Structure* (Aldershot: Gower, 1987).

[47] See Gordon Inglis, *More Than Just a Union: The Story of the NFFAWU* (St. John's: Jesperson Press, 1985); Wallace Clement, *The Struggle to Organize: Resistance in Canada's Fishery* (Toronto: McClelland and Stewart, 1986).

[48] Hilda Chaulk Murray, *More Than 50%: A Woman's Life in a Newfoundland Outport, 1900-1950* (St. John's: Breakwater Books, 1979); Marilyn Porter, "'She Was Skipper of the Shore-Crew': Notes on the History of the Sexual Division of Labour," *Labour/Le Travail*, 31 (Spring 1985): 105-123.

[49] Ellen Antler, "Women's Work in Newfoundland Fishing Families," *Atlantis* 2,2 (1977): 106-113; Ellen Antler, "Fisherman, Fisherwoman, Rural Proletariat: Capitalist Commodity Production in the Newfoundland Fishery," unpublished Ph. D. thesis, University of Connecticut, 1981.

[50] Barbara Neis, "From 'Shipped Girls' to 'Brides of the State': The Transition from Familial to Social Patriarchy in the Newfoundland Fishing Industry," *Canadian Journal of Regional Science* 16,2 (Summer 1993), 185-211.

[51] Miriam Wright, "Women, Men and the Modern Fishery: Images of Gender in Modernization Plans for the Canadian Atlantic Fishery" in Carmelita McGrath, Barbara Neis and Marilyn Porter, eds. *Their Lives and Times: Women in Newfoundland and Labrador* (St. John's: Killick Press, 1995); Miriam Wright, "Young Men and Technology: Government Attempts to Create a 'Modern' Fisheries Workforce in Newfoundland, 1949-1970," *Labour/Le Travail* 42 (Fall 1998): 143-159.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

The Politics of Cultural Memory: Themes in the History of Newfoundland and Labrador in Canada, 1972-2003

— Jerry Bannister

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The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

This paper explores the relationship between nationalism and the writing of Newfoundland history. It examines both recent changes in the conceptualization of history and long-term continuities in nationalist rhetoric in the twentieth century. It traces the seminal influence of D.W. Prowse's *History of Newfoundland* and the formation of cultural memory since 1972. This study also assesses recent debates over the economic impact of the Terms of Union, and makes recommendations concerning nationalism and the use of historical research. It argues that nationalism cannot be ignored as a cultural and political force in Newfoundland and Labrador: the Royal Commission should consider both sides of the ongoing debate over the province's place in Confederation. By analyzing the views of a variety of individuals and groups — academic historians, writers, politicians and members of the business community — this paper offers an overview of cultural and intellectual developments over the past 30 years.

Contents

Introduction: The Legacy of Judge Prowse 123
The Newfoundland Renaissance 126
The Past in the Present: The Peckford Era 128
From Nationalism to Federalism 131
Secret Nation: History and Fiction in the 1990s 133
The Spectre of Separatism: Recent Debates Over Confederation 135
The Academic Debate 138
The Roots of Nationalist Rhetoric 139
Conclusions and Recommendations 142

Acknowledgments 145
Endnotes 145

Introduction: The Legacy of Judge Prowse

For over a century, D.W. Prowse's *History of Newfoundland* has been the island's most widely read historical study. It is difficult to overestimate the influence of Prowse's work. Published to widespread acclaim in 1895, it has inspired generations of scholars and shaped the way Newfoundlanders see their past. Joey Smallwood himself admired Prowse's book, and his extensive writings perpetuated many of its core themes. Although Judge Prowse favoured joining Canada, he advocated, in the late George Story's words, a "sturdy nationalism."[1] The story of Newfoundland was, according to Prowse, a narrative of the long struggle for control over the island between the tyrannical West Country merchants along with their allies in the British government, on the one hand, and the humble settlers and their political champions, on the other.[2] In the 1970s this traditional interpretation received its first systematic reappraisal at the hands of academic historians, but Prowse's view still dominates popular conceptions of history.[3] It continues to exert a heavy influence over the array of literary and commercial constructions of the island's history, thereby providing the basic prism through which Newfoundland nationalism has been reflected in both the arts community and the thriving cultural tourism industry. In his acclaimed novel, *The Colony of Unrequited Dreams*, Wayne Johnston goes so far as to depict Prowse's *History* as the secular Bible of the island's people.[4] And with the publication of a new edition in 2002, it is enjoying a remarkable renaissance.[5]

Yet Prowse's conception of history has received relatively little scholarly attention. The best studies remain the late George Story's masterful articles, the last of which was written over 15 years ago. Story's superb analysis of the life and times of Daniel Woodley Prowse provides the basis on which to undertake a reappraisal of the impact of the *History of Newfoundland*.[6] Not surprisingly, academic scholars have taken a critical view of the seemingly indefatigable popularity of Prowse's *History*. They have argued that the continued reliance on Prowse as a historical authority has come at the cost of ignoring important scholarly research conducted over the past 30 years.[7] The tenacity of Prowse's interpretation has perpetuated many of the stubborn nationalist legends which professional historians have worked to debunk and, as Eric Hobsbawm has argued, challenging such myths represents one of the most important responsibilities for historians.[8] But attacking the veracity of Prowse's assertions has revealed little about how or why his work has remained so popular for so long. By fixating on the task of overturning the misconceptions inherited from Prowse, historians have overlooked a key issue.

The reason Prowse remains so popular is not due to the power of myth *per se*; rather, it is because his entire idea of history has been turned on its head. He was a whig historian in the classic sense of the term, and his *History* is an account of how Newfoundland had triumphed in the face of adversity. For Prowse, a crucial break separated the past (backwardness) from the present (progress). In using the past to show how far Newfoundlanders had come in transcending a legacy of repression, he approached history as both a series of enlightening lessons and an entertaining narrative, dividing the past into distinct periods which advanced teleologically. Since the 1970s successive writers have drawn heavily on Prowse's evidence and interpretation, but they have replaced his basic outlook with their own philosophy of history. This new framework takes a radically different approach: it collapses the distance between historical epochs into a single meta-narrative which deliberately blurs the line between the past and the present. Rather than triumphing over their history of oppression, according to this view, Newfoundlanders are haunted by it. We are not free from our past but trapped by it, forced to endure seemingly endless cycles of economic failure and social misery. Reflecting the zeitgeist of the post-Smallwood era, this outlook grew out of the cultural revival of the 1970s, emerged in one form in Peckford's economic nationalism of the 1980s, and has resurfaced in the wave of historical fiction since the 1990s.

Prowse followed the traditional liberal interpretation first established in 1793 by John Reeves and propagated by nineteenth-century political reformers, most notably William Carson and Patrick Morris. A trained jurist who served as the island's first Chief Justice, Reeves saw Newfoundland history through the lens of conflict. In what is arguably the most influential statement ever written about Newfoundland, he began his book by setting out the heroes and villains:

> I intend to give a short history of the Government and Constitution of the island of Newfoundland. This will comprise the struggles and vicissitudes of two contending interests — The planters and inhabitants on the one hand, who, being settled there, needed the protection of a government and police, with the administration of justice: and the adventurers and merchants on the other; who, originally carrying on the fishery from this country, and visiting that island only for the season, needed no such protection for themselves, and had various reasons for preventing its being afforded to others.[9]

As Patrick O'Flaherty has noted, by establishing the paradigm of repression, Reeves spawned the nationalist outlook which so greatly influenced Prowse.[10] Prowse's portrayal of the West Country merchants echoed Reeve's perspective: "Newfoundland settlers of all kinds, from Guy and Baltimore down to the poorest waif from the West of England, had to fight for their lives with the dire hostility of the ship-fishermen or western adventurers from England."[11] On the question of government policy, he took a markedly harsher view than Reeves:

> It is no marvel that Newfoundland did not thrive under such a regime; the real wonder is that the settlers lived at all under such oppressive restrictions. But for their allies in New England, doubtless they would have been obliged to abandon their settlements. Our treatment by the British Government has been so stupid, cruel, and barbarous that it requires the actual perusal of the State Papers to convince us that such a policy was ever carried out.[12]

In Prowse's hands, Newfoundland's early history became a tale of conspiracy, as mercantile interests blocked political reform and stunted social development. "There can be no doubt," he concluded, "that it was the influence of these West Country merchants that retarded the grant of a local legislature."[13] Without local control over resource allocation, the island remained economically backward and socially embryonic.

As George Story pointed out, the final third of the *History* resembles journalism as much as history.[14] In reporting on issues current in Newfoundland politics, such as the French Shore problem or Confederation with Canada, Prowse did not have the advantage of historical perspective. Nonetheless, his approach to the problems confronting Newfoundland in 1895 reveals a great deal about his deeper view of history and cultural memory. In the concluding section to the final chapter, Prowse confronted the twin disasters of the great fire of 1892 and the bank crash of 1894. In the face of what "seemed enough to fill up the cup of our woe," he chose optimism: "We must remember that whilst much of the working capital of the Colony has been lost in recent failures, the wealth-producing power of the Island has not been seriously impaired."[15] Though Prowse referred to the need to stamp out the last vestiges of the credit system, there is a telling absence of historical villains in his final assessment. After dominating the earlier chapters, the West Country merchants are no longer to be blamed for the colony's misfortunes. "The prejudice against the merchants," he noted, "however reasonable and natural in olden times, should not exist now; employers and employed are mutually dependent on each other."[16] The one explicit reference to a past event is to the crisis of 1817, which he cited as an example of how Newfoundlanders had persevered in the face of similar problems. This did not mean that Prowse was uncritical of either the merchants' party or imperial policy — indeed, his comments on the French Shore problem were particularly scathing — but he did not see Newfoundland as caught in a cycle of failure or captive to a history of oppression.

Prowse was a tireless enthusiast of Newfoundland who did not disguise his efforts to promote the island's development, particularly its tourism industry. The theme of economic progress figured prominently in Prowse's later writing, such as his *Newfoundland Guide Book* (published in 1905), which emphasized economic growth. His work on other projects, such as Cabot Tower, reflected not nostalgia so much as nationalistic pride.[17] He was in the business of "booming Newfoundland," as he termed it in a letter to Sir Edward Morris.[18] George Story argued that Prowse's chapter on telegraphic communication represented the "optimistic climax of his long history of neglect and oppression."[19] But the emphasis on technological advancement was not merely tacked on to the end of his *History*. It formed part of a larger philosophy of history marking the transition to the progressive era. Prowse was a nationalist of a very distinctive, Victorian stripe, and his *History* cannot be simply lumped together with various strands of nationalism which emerged in the second half of the twentieth century. In his mind, history comprised neither an undifferentiated mass of chance occurrences nor an endless series of cyclical patterns; rather, it was divided into epochs which evolved in a linear manner toward modernity. His whig interpretation was not the unbroken line of relentless progress envisaged in Herbert Butterfield's classic model but followed instead the broader pattern of nationalist historiography in the late nineteenth century.[20] As Eric Hobsbawm and Benedict Anderson have argued, the invention of a shared historical narrative was a key ingredient in the construction of a political identity.[21] The liberal ideology current in Prowse's time envisaged the assimilation of smaller polities into larger nations as part of the natural march of progress. He did not see any contradiction between his support for Confederation with Canada and his pride in being a Newfoundlander.

For three-quarters of a century, Prowse's view of history remained basically unchallenged. The major studies completed in the pre-Confederation period — most notably A.H. McLintock's *Establishment of Constitutional Government in Newfoundland* — focused largely on how British policy had stunted the island's economic and political development. Like Prowse, McLintock narrated how the settlers had eventually persevered in the face of adversity to build a successful society. "Modest and unpretentious as is its story," he concluded, "no student of its history can set it aside without feeling strangely moved at the wonder of human pertinacity in creating from 'a great ship' an amazing colony which, in spite of inherited weaknesses and economic disabilities, stands to-day as a testimony to the power of people to nullify Britain's greatest experiment in retarded colonisation."[22] Joey Smallwood also took up Prowse's themes in his *Barrelman* radio program, which often presented a nationalist perspective, and in his copious writings in Newfoundland history.[23] Smallwood followed the conventional framework by dividing history into the dark age, before the advent of representative government, and the enlightened era ushered in by industrialization and later Confederation with Canada. Amplifying Prowse's grand narrative of struggle, he created an epic tale which at times bordered on hagiography. Smallwood's book on William Carson placed him at the top of the pantheon of Newfoundland's heroes. As the founder of the Newfoundland nation, Carson represented the successful revolt against the ancien régime of the naval governors and the West Country merchants. Like Prowse, Smallwood saw no contradiction between his advocacy for Confederation and his Newfoundland nationalism. And as Premier in the 1950s and 1960s, Joey Smallwood embarked on a crash program to usher in the era of industrial progress which Prowse had championed a half century earlier.[24] The Smallwood government was convinced, as Miriam Wright points out, that creating a "modern" fishery would solve all of the industry's problems in one fell swoop.[25]

The influence of Prowse's *History* reached its apogee in 1968 with the publication of a new provincial textbook. Leslie Harris's *Newfoundland and Labrador: A Brief History* inculcated tens of thousands of Newfoundland schoolchildren with what was essentially Prowse's view of history.[26] Harris adopted the traditional cast of villains (e.g. the West Country merchants and fishing admirals) and heroes (e.g. William Carson and Patrick Morris), as well as the familiar storyline of perseverance in the face of political repression and economic adversity. Harris asserts that "Neither the rule of the fishing admirals, nor the French wars, nor the bad treatment of the Irish made the Newfoundlanders give up hope."[27] With the arrival of Carson, described as a "brave and unselfish man," the great reform movement finally defeated the old tyrannical regime in 1825.[28] "At long last, after more than three hundred years of struggle," Harris concluded, "Newfoundland had become a colony."[29] The textbook extends Prowse's interpretive format into the post-1949 era: the First World War, the Depression, and Commission of Government are explained as obstacles which delayed the progress which Confederation finally bestowed. The textbook ends on essentially the same point that Prowse made about resource potential in the conclusion to his *History*.[30] Like Prowse, Harris separates the legacy of the past from the promise of the future. He espouses an optimistic variant of nationalism which presents Newfoundland history as a story of struggle but not of loss.

The Newfoundland Renaissance

While schoolchildren were still being taught the traditional view of Newfoundland history, the province was undergoing a remarkable cultural transformation. Beginning in the late 1960s, a cultural revival began to change how Newfoundlanders viewed their past. The provincial government had facilitated this process — Smallwood himself took pains to encourage Farley Mowat's interest in Newfoundland — and the celebration of local heritage became linked with the tourism industry.[31] By the 1970s the province was in the midst of what Sandra Gwyn termed "The Newfoundland Renaissance." Gwyn charted the remarkable expansion of new work in a wide range of fields: theatre groups such as Codco; artists such as Gerry Squires and Mary Pratt; and writers like Ray Guy and Harold Horwood. Yet mixed with Gwyn's enthusiasm was a lament for a lost heritage. "The old order that produced all of us," she noted, "is being smashed, homogenized, and trivialized out of existence."[32] She quotes Patrick O'Flaherty as saying that writers such as Ray Guy were "the last of the real Newfoundlanders."[33] The passage into industrial modernity which Prowse had trumpeted as a national victory was now mourned as a cultural loss. At the heart of this perspective was the belief that the island's golden age lay not in a modern future of material wealth but in an idyllic past of outport culture. Ray Guy himself has admitted that this romantic view drew in large measure on nostalgia for a past that never actually existed, but he claimed that it was necessary as a way to combat the propaganda of the Smallwood regime.[34]

The province's cultural renaissance was part of a much broader phenomenon which has swept western societies over the past 30 years. As Gerald Pocius has argued, Newfoundland has followed a broader pattern whereby the weakening of traditional communal ties engenders a drive to recapture (and reinvent) local heritage.[35] Within the university community, this process manifested itself in the burgeoning fields of historical anthropology and folklore. Customs like mummering, which Prowse dismissed as quaint traditions, were now treated as serious topics for scholarly research.[36] Folklorism has also been used to promote the expanding tourism industry, and it has helped to fuel the rise of nationalist sentiment. As James Overton points out, government agencies and business elites have supported the fabrication of "traditional" cultural commodities — i.e. tourist-friendly myths and stereotypes — in order to further their own socio-economic interests.[37] Equally important, folklorism in Newfoundland, as elsewhere, has tended to embrace an implicit anti-modernism which divides society into the authentic (traditional, rural, plebeian) and the counterfeit (modern, suburban, bourgeois). As Ian McKay argues, "the national identities created through the use of such categories could not and did not include everyone. Treating some people (normally peasants) as 'Folk' (and hence the privileged bearers of 'national essence') only worked if there were some who were not 'Folk'."[38] With this approach came a philosophy of history that contrasted the unspoiled past with the corrupted present. Change became equated, as McKay notes, with degeneration and deviance, creating an atrophic vision which views economic development with fierce hostility.[39] As a result, the teleology which had been so central to the liberal conception of history had fallen out of intellectual fashion.

In the 1970s the position of Prowse's *History* transformed from an authoritative text into an unreliable source. In the first sustained challenge to the prevailing orthodoxy, Keith Matthews argued the fish merchants did not conspire to prohibit settlement or stunt the colony's growth. Interdependence characterized relations between the different groups involved in the fishery: the credit system worked to insulate both merchants and planters from cyclical economic depressions. Market forces, resource endowment, and commercial policies comprised the vital factors in the island's development.[40] As for the heroic Carson and Morris, Matthews asserted that the victory of representative government marked simply the success of a colonial elite's ambition: influenced by political currents in Britain, the reformers created a nationalist ideology which bore little relation to circumstances in the colony.[41] In an influential review article Matthews systematically discredited the traditional myths inherited from Prowse as well as the scholarly variants of the retarded colonization thesis.[42]

Although Matthews' work constituted the most important challenge to Prowse's reputation as a historian, it represented only one element of a much larger movement in academic scholarship. The 1970s saw the emergence of new schools of research in a variety of areas

— historical geography, economic history, maritime studies, and cultural anthropology — sponsored by agencies such as the Institute of Social and Economic Research. This wave of research involved dozens of scholars and, as a number of different commentators have noted, it revolutionized the way historians approached Newfoundland's past.[43] The new perspectives rejected not only Prowse's specific arguments, but also his entire whig interpretation and its attendant bias toward high politics, great men, and the march of progress. In his authoritative survey of Newfoundland literature, O'Flaherty condemned Prowse as an unimaginative historian who ruined his impressive research with sentimental editorializing and employed a backward historical framework coloured by personal bias. "There was," according to O'Flaherty, "a thick layer of such contrived emotion throughout Prowse's book."[44] Prowse's optimistic conviction that Newfoundland had broken with its dark past and could anticipate a bright future became, in O'Flaherty's eyes, a corrupted fantasy. The reaction against Prowse stemmed in part from a broader debate over nationalism in Canada during the late 1970s, as scholars discussed radical regionalism and worried about the potential breakup of the federation.[45] James Overton argued that "neo-nationalism," as he coined it, was a type of reactionary ideology used to promote the class interests of the bourgeoisie.[46]

The Past in the Present: The Peckford Era

With the election of Brian Peckford as Premier in 1979, Newfoundland nationalism entered a new phase of development. The province witnessed a surge in nationalist sentiment in the 1980s, culminating in the Peckford administration's battle with Ottawa over jurisdiction of offshore resources. As Harry Hiller notes, the rise in nationalism emanated from a sense of cultural uniqueness and economic disadvantage.[47] Though Hiller hesitated to categorize Newfoundland nationalism as a manifestation of a distinct ethnic identity, he concluded that separatist rhetoric could not be dismissed as merely political flirtation or elite manipulation. While groups such as the Party for an Independent Newfoundland attracted publicity, Brian Peckford was without question the leading political figure in the nationalist movement.[48] As Ronald Rompkey has argued, Peckford saw himself as a student of history and a strong supporter of Newfoundland culture. [49]

At the height of the province's campaign for ownership over offshore oil resources, Peckford published a political manifesto, *The Past in the Present*, which outlined the Premier's view of Newfoundland history. Peckford was certainly a populist, but he was also well read, and he quoted liberally from scholars such as Gertrude Gunn, S.J.R. Noel, James Hiller, Peter Neary and David Alexander.[50] He followed Alexander's basic argument that the federal government was largely to blame for the failure to develop a viable economy in post-1949 Newfoundland.[51] Yet he combined his secondary research with an eclectic mix of personal history, political rhetoric, and statistical analysis. The thrust of his argument was to "show the extent to which the monumental mistakes of the past have resulted in our Province's being one of the poorest regions of Canada, and...to demonstrate how the situation has been aggravated by recent policies of the Federal Government."[52] To achieve this goal, Peckford drew on Prowse's *History*, which he quoted approvingly at the beginning of his historical section.[53] In many respects, *The Past in the Present* was a recapitulation of Prowse's interpretation of the island's past, complete with repressive government and merchants conspiring to restrict settlement, retard growth, and deny Newfoundlanders their natural rights. "Stories are common even now," Peckford notes, "about those early days when we were not legally tolerated in our own land, and of the kind of treatment to which our ancestors were subjected."[54] Echoing the tone and language of Prowse, he used his conclusion to stress the prospect of progress:

> Viewed in this context, the Province has before it a fantastic opportunity. We have around our shores now a rich, renewable fish resource. On land we have tremendous water power. Our trees, minerals, agriculture, can all make important contributions to our future well-being. If we can manage the phenomenal oil and gas resource in such a way as to buttress these renewable resources to which our way of life is so intimately related, we can as a people look forward, despite past mistakes, to a bright and prosperous future.[55]

Peckford saw no evident contradiction in citing both revisionist scholars and Prowse, whom he seemed to follow closely in rhetoric and argumentation.

However, a subtle yet crucial difference separates the outlooks of Prowse and Peckford. Unlike Prowse, Peckford did not imagine history as a series of discrete eras moving teleologically toward modernity, nor did he see the distant past as part of a quaint "olden time" removed from the present. When he envisaged Newfoundland's experience as a colony, dominion and province, he viewed it as a seamless web of incessant struggle. His manifesto declares that real progress is a dream which can only be achieved by overcoming powerful political and cultural obstacles. As its preface proclaims:

> Confederation wasn't an isolated event, nor was it one emerging from our more recent history. It flowed from our whole history of colonialism, subjugation and exploitation. Newfoundland was frequently, as were all the colonies, a resource base to be exploited for the benefit of the mother country. Not much has really changed: the essential elements are still present. We are today facing choices that are similar to those that have been faced many times in our history. The central question is whether we will be "true to our history" and once again barter away our future; or whether we can translate into self-confidence a pride that is now emerging at certain levels of our psyche, but which we are still hesitant to express.[56]

In Peckford's mind, history had inflicted a debilitating psychic wound from which it was not certain that Newfoundland could recover. The past haunted the present, making it difficult to break from historic patterns of subjugation and failure.

Peckford's arguments were part of a larger debate over the state of Newfoundland's culture and the impact of Confederation. His most vocal supporter in the academic community was F. L. Jackson, a philosophy professor who wrote provocatively on a range of topics. Jackson echoed Peckford's passionate tone and nationalistic language, and his columns and articles outlined the province's grievances over its mistreatment by Ottawa.[57] Like Peckford, Jackson contrasted the ancestral virtues of Newfoundlanders with their repression at the hands of outsiders, but he was skeptical of what he saw as artificial attempts to reinvent traditional culture. In *Surviving Confederation*, he condemned ersatz traditions which misrepresented the island's true history.[58] To learn the truth about Newfoundland, he argued, "it is essential to set a basic fact in focus: as a truly viable and successful society, Newfoundland has never yet existed; or more positively put, it has yet to come into its own."[59] He asserted that the first two attempts to organize a socio-political system — under proprietary colonies in the seventeenth century and then Responsible Government two centuries later — failed miserably, while the current attempt as a province in Canada had yet to be proven successful.[60] Thus Newfoundland history represents a kind of post-traumatic stress disorder. False nostalgia for a happy past was a dangerous drug that worsened the problem; the only way out was to implant a new progressive political culture.

Despite this iconoclasm, Jackson took a conspicuously conservative approach to the writing of history. He disapproved of recent attempts to overturn the traditional model of Newfoundland history, arguing that it did little to serve the public good, and he condemned the recent wave of revisionist scholarship.[61] In place of Marxist historiography, which was derided as a "mystification of Newfoundland history,"[62] Jackson seemed to favour reverting back to Prowse's *History*, though he offered no specific suggestions or citations. Like many commentators who emphasize the importance of history, he was remarkably vague on its details, relying instead on familiar platitudes when it served his purposes. Not surprisingly, Jackson himself was accused of spreading atavistic myths about the island's cultural virtues.[63] In essence, this view of history was Prowse without the progress. Stripped of Prowse's faith that Newfoundland was liberated from its past, Jackson's historical framework embraced a type of scorched-earth liberalism: "The vision and rhetoric of leaders like Carson, Bond, Coaker, Smallwood, or Peckford may on occasion break through for a time, but the impulse to retreat into the at least familiar certainties of the bare-subsistence life, relying only on God and fickle salvation at the hands of unsympathetic benefactors, is never far from the surface."[64] Variants of this type of nationalism can be seen in the work of other writers — Ray Guy, David Benson and Patrick O'Flaherty, for example — who argue that Newfoundland history is an unbroken tale of mistakes and missed opportunities.[65] This conception of history keeps important elements of Prowse's original thesis, such as the notion that settlement and property rights were strictly forbidden in early Newfoundland, but rejects his basic attitude toward the past.

When the revisionist scholarship was integrated into the province's school curriculum in the 1980s, Prowse was no longer portrayed as an important historian. In a new high-school course on Newfoundland culture, students were assigned *Our Newfoundland and Labrador Cultural Heritage*, a hybrid textbook designed to bridge the gap between history and social studies.[66] It included a short commentary on Prowse: he was cited as one of the nineteenth-century authors who "recorded many of the myths and descriptions of Newfoundland and its people which are deeply imbedded in folklore — the oral tribal memory of the people."[67] The text summarized Prowse's career briefly, noting that his *History* "has been reprinted several times and still makes interesting reading."[68] As for the nature of Newfoundland history, the authors tried to strike a balance between progressive optimism and cultural relativism. While claiming that contemporary culture "is both the result and a reflection of the past history and experiences of generations who have lived here," they also concluded that there never existed a "golden age, and certainly old Newfoundland culture has little relation to contemporary life."[69] This dichotomy between the remote past and the modern present appears similar to Prowse, but the authors expressed doubt over the prospect of progress, asserting that "it is difficult to decide what kind of people we are, and what kind we might be in the future."[70] Newfoundland, it would seem, was at a cultural crossroads.

From Nationalism to Federalism

When Clyde Wells became Premier in 1989, it signaled a significant shift in the province's political culture. The end of the Peckford era engendered a new style and focus in provincial politics: Wells was neither a populist nor a Newfoundland nationalist. Whereas Peckford had championed provincial rights and local control over resources, Wells advocated a strong federal government as the only means through which regional disparities could be ameliorated. Wells eschewed nationalist rhetoric and his political speeches rarely invoked the province's history or culture. The only instance in which he ever indulged in nationalist language was when he addressed the problem of out-migration. In a televised debate during his 1989 election campaign, Wells' attack of the Tories' record sounded like a nationalist argument: "They've driven 35,000 people out of the province since 1981 to Toronto, or Calgary, or Edmonton to find work....They've failed their fundamental responsibility to provide an opportunity for our young people to come out of school and expect to find a job here with their family and relatives."[71] He invoked the personal example of his own son, who left the province to work, and the slogan "Bring Our Children Home" appeared on signs at Liberal rallies. Wells reputedly went so far as to promise to bring home "every mother's son," though he later denied ever making such a claim.[72] Although Wells was no doubt sincere in his concerns over out-migration, this uncharacteristic foray into nationalist terrain was an isolated aspect of his political campaign and did not carry over into his Premiership.

Although Wells and Peckford pursued different policies, their administrations shared two common traits. First, as Douglas Brown has noted, a continuity of purpose and interests bridged the two political eras. Like Peckford, Wells confronted a legacy of high unemployment, acute financial instability, and a "have-not" provincial status which showed no signs of abating.[73] Rather than following Peckford's strategy of focusing on mega-projects and battling Ottawa for control over resources, Wells concentrated on cutting the provincial deficit and fighting against the decentralization of Canadian federalism. Wells believed that weakening the power of Ottawa would undermine the goal of obtaining equality with the other provinces. This led to a second characteristic shared by both Premiers: their administrations were marked by a sharp and sustained political conflict with the federal government; they were both prominent figures on the national stage, attracting considerable media attention. Wells was an ardent federalist and Peckford a strident provincialist, but both men fought a pitched battle against the Prime Minister of the day. Wells' attacks on Mulroney's Meech Lake Accord were no less heated than Peckford's assault on Trudeau's policy on natural resources. Both Premiers appealed to a sense of constitutional grievance and a belief that Ottawa was conspiring against the province's interests.

However, beneath these similarities, a basic antithesis separated the governments of Wells and Peckford. Where Peckford remained first and foremost a Newfoundlander, Wells became a type of Canadian hero. As Richard Gwyn explained, for most English Canadians, Wells' stubborn resistance to the Mulroney government made him "a populist bard — a constitutional

Milton Acorn of Canadianism, of the idea of a community larger than the sum of its parts."[74] Wells' systematic attack on the "distinct society clause" in the Meech Lake Accord reflected his firm conviction that no province should enjoy special status under the Constitution. Wells did not favour greater provincial autonomy in areas such as health care or job training because he believed that this would impair the financial ability to deliver such services. Brian Peckford saw this as a return to the Smallwood era:

> In watching him [Clyde Wells] perform, I don't question his integrity and the fact he means what he says. But there seems to be a throwback to the 60s in the sense that, and Smallwood took this narrow view, too, on a whole range of issues they take very narrow views of their responsibilities and obligations as a provincial government. It's all thrown over to the federal government. He is not a provincialist at all, and in that way he's more like Smallwood, who believed in an extremely strong central government, almost the "Uncle Ottawa" idea that Moores attacked when he won his first election.[75]

Though Peckford's criticism was perhaps rather harsh, it did capture the essential point: Wells wanted to maintain a status quo whereby Newfoundland and Labrador would depend on the extant federalist system to achieve the goal of becoming equal to the other provinces of Canada. Wells was, at bottom, a small-c conservative with whom many English-speaking Canadians could identify. His popularity had really nothing to do with the fact that he was a Newfoundlander, and he addressed national issues from a Canadian rather than provincial perspective.[76] And aside from his work in educational reform, Wells was never engaged deeply in cultural or heritage issues.

When Clyde Wells resigned and Brian Tobin became Premier in 1996, the transition was relatively smooth. Unlike 1989, the adjustment to a new administration marked a continuity, not a break, in provincial politics. Like Wells, Premier Tobin was a federalist who would become, in another guise, a Canadian hero. Tobin was in many ways a populist who had little in common with Wells, but he carried on Wells' tradition of using the premiership to debate national issues. Dubbed "Captain Canada" in the media for his attacks on foreign over-fishing, Tobin worked to enhance his national profile after he assumed office. During the debates leading up to the Quebec Referendum of 1995, he was heavily involved in the federalist campaign as an organizer and key speaker at the Montreal rally.[77] However, unlike Wells, Tobin was highly active in the cultural sector. His administration oversaw a number of major initiatives: the Special Celebrations Agency, which promoted cultural tourism; the Premier's Advisory Committee on Cultural Infrastructure, which launched The Rooms project; and the cultural and heritage policy initiatives. These efforts ushered in a new era in cultural policy but did not mark a larger shift in provincial politics. Like Wells, Tobin never publicly questioned the province's place in Confederation. Yet this commitment to a centralized political system was at variance with broader trends in Canadian politics and, as we shall see, it did not reflect contemporary cultural trends in Newfoundland and Labrador.[78]

Secret Nation: History and Fiction in the 1990s

During the Wells and Tobin administrations, the province experienced a remarkable period of cultural development. With the decline in traditional historiography came a wave of new writing based on literary interpretations of the province's past. This work includes a range of authors, from E. Annie Proulx and Bernice Morgan (both of whom saw their novels adapted into films), to John Steffler, Gordon Rodgers and most recently Michael Crummey.[79] What they have in common is the goal to create a sense of what it was like to live in a certain time and place in Newfoundland and Labrador. To varying degrees they base their fiction on historical research, and they usually acknowledge the sources on which they relied. In cases such as David Macfarlane's literary memoir, the line between fact and fiction is fairly clear.[80] But in other works the construction of the past is deliberately skewed to serve a literary purpose. For example, John Steffler asserts that while he based much of his novel on primary sources, the "story grew as I handled it, following its own inherent tendencies as well as mine."[81] "Time has been compressed or expanded," he acknowledges, "and events invented or altered according to the narrative's needs."[82] The practice of purposefully merging the present into the past was part of a larger movement in post-modern literature and, as elsewhere, it has been heavily criticized for being intellectually untenable.[83] "The idea that 'all history is fiction'," A.S. Byatt noted pithily, "led to a new interest in fiction as history."[84]

The 1990s also witnessed a noticeable surge in nationalist sentiment within the province's arts community. Nationalism was central to works such as the popular film *Secret Nation*, based on the screenplay by Ed Riche, which suggests that Newfoundlanders are not free citizens of a province in Canada but rather captives in a nation occupied by a foreign power. According to this view, Canada, Great Britain and some Newfoundland turncoats had colluded to rig the referendum on Confederation. Following literary trends, Riche blended together elements of history and fiction into a new version of the old conspiracy myths.[85] The theme of mourning the loss of nationhood became increasingly prevalent as the fiftieth anniversary of Confederation approached. In the poetry of Des Walsh, for example, Confederation is depicted as severing the Newfoundland folk from their true identity.[86] For Wayne Johnston, joining Canada forced Newfoundlanders to forsake their own past:

> There is a misconception, by some people much encouraged, by others simply allowed to go unchallenged, that Newfoundland was "born" in 1949, that in 1949, Canadian history retroactively became our history, that, for instance, "our" first prime minister was Sir John A. MacDonald. The same misconception is applied to pre-confederate Canadian literature. Our actual history and literature now exist in a kind of limbo where not even many archivists set foot.[87]

Johnston argued that the status of Prowse's *History* as a "forgotten book" was symptomatic of a deeper cultural malaise. On the question of certainty, the historian Simon Schama has explained eloquently, "We are doomed to be forever hailing someone who has just gone around the corner and out of earshot."[88] Johnston sees it the opposite way: the problem is not that the truth cannot be caught but that we fail to see it right under our noses, buried in the great tome of a patriarch.

Lost in the heated discussion over the accuracy of Johnston's portrayal of Smallwood has been his treatment of Judge Prowse's *History*. The *History* was a central plot device — in the scandal which forces Joey Smallwood from Bishop Feild School, it is used to write the incriminating letter — and Smallwood's rival is the grandson of Judge Prowse, whom he visits. Johnston depicts Prowse as an old man possessed by history.[89] This possession infects Smallwood himself after he leaves Bishop Feild. His father informs him that they were now all ruined because of Prowse's *History*, which he called The Book. While his father rages against "That cursed Book,"[90] Smallwood compulsively carries it with him throughout his journey of self-discovery. Over the course of the novel, The Book transforms into a type of secular Bible that impels him to seek the truth about the past. The exiled Newfoundlanders are also compared, through the voice of the character Hines, to the wandering Jews:

> Hines, in his sermon/column, forever likened Newfoundlanders to the Jews, pointing out parallels between them. There was a "diaspora" of Newfoundlanders, he said, scattered like the Jews throughout the world. He saw himself as their minister, preaching to his flock from his column, most of which began with epigraphs from the Book of Exodus. So often did Hines liken Newfoundlanders to the Jews, we likened him to Moses, asking each other in the morning if Moses had come down from the mountain yet, meaning had he shown up yet for work.[91]

Smallwood is depicted as a type of prophet: his arduous journey across the island enlightens him about the plight of his own folk, instilling in him the mission to see them through to the promised land, i.e. Confederation.

The key to the novel is Johnston's conception of Newfoundland history. In place of religion, he gives Smallwood a conscience based on his relationship with history. When readying himself to return from exile, he experiences an epiphany:

> I tried to convince myself that I was ready to return, that only by leaving had I learned to live here. But I wondered if I, too, had reached the limits of a leash I had not until now even known I was wearing and was, like my father, coming home not because I wanted to, but because I was being pulled back, *yanked back by the past*."[92]

In Johnston's portrait of both Smallwood and Prowse, history is not a temporal space but rather a spiritual inheritance from which they — and, by extension, all Newfoundlanders — cannot escape. Smallwood assumes the guilt for their collective failure to live up to the greatness of the land, and the scar of history becomes a type of original sin. *The Colony of Unrequited Dreams* is, in many ways, similar to Edmund Morris's controversial fictional biography of Ronald Reagan.[93] Like Morris, Johnston was criticized for projecting too much of himself onto his subject and veering into autobiography.[94] Yet as important as the problem of whether he accurately represents Smallwood is the question of whether he got Prowse right. Prowse might have been haunted in his old age, but his *History* certainly was not: in it he affirmed the capacity of Newfoundlanders to transcend their legacy of oppression and forge a new age of progress.

Prowse's cultural memory was not eclipsed by the blurring of the past into the present, and he would have spurned the notion that we are yoked to a tortuous history of misfortune.

The enduring popularity of Prowse's *History* is due to the fact that it has entered the realm of heritage. Whether it is factually accurate or relies on nationalist legends matters less than its iconic place in Newfoundland culture. With Frank Holden's one-man play, Prowse himself has become a character in the local heritage industry.[95] The role of Prowse's work in the propagation of popular myths is not, in itself, particularly alarming. The problem is that the book exists in a type of cultural no-man's-land, where the line between history and heritage has become muddled. As David Lowenthal explains, this confusion raises important issues:

> In domesticating the past we enlist it for present causes. Legends of origin and endurance, of victory or calamity, project the present back, the past forward; they align us with forbears whose virtues we share and whose vices we shun. We are apt to call such communion history, but it is actually heritage. The distinction is vital. History explores and explains pasts grown ever more opaque over time; heritage clarifies pasts so as to infuse them with present purposes.[96]

As Newfoundland writers continue to experiment in historical fiction — Wayne Johnston himself has referred to his work as "historical impressionism" — they have begun to play a larger role as spokespersons for the province's culture and history.[97]

The Spectre of Separatism: Recent Debates Over Confederation

As the province entered the twenty-first century, nationalism was increasingly becoming an accepted part of mainstream political culture. This process took a major step forward in October 2000, when Craig Dobbin — President of Canadian Helicopters Corporation and arguably the province's most influential business leader — made a passionate speech to the St. John's Board of Trade. In a remarkably candid address, Dobbin confronted the question of whether Newfoundland and Labrador should separate from Canada. "If we're such a drain, such a sinkhole, let us go," Dobbin told the business leaders, adding that "We'll manage our own resources and do what leading economies like Ireland are doing." Asserting that "we have no power," he then outlined an argument for separating from Canada:

> We've never had a Newfoundlander appointed to the Supreme Court of Canada. We have seven MPs [out of 301], so it's very simple for the Federation of Canada to take our natural resources....We are not a have-not province. We are a very rich province. It's just been taken away from us."[98]

In reporting Dobbin's speech, the *Globe and Mail* published a feature article comparing separatist sentiment in Newfoundland with the independence movements in other North Atlantic islands, such as the Faroe Islands. Dobbin's rhetoric was echoed several months later in another speech before the Board of Trade by Victor Young, then-president of FPI, who argued that Confederation had failed to protect Newfoundland's interests, particularly its hydro-electric resources. Before the 600 people attending the business luncheon, Young allegedly shouted, "*Vivre Terre Neuve libre.*"[99]

The spring of 2001 witnessed a heated debate over the take-over of Fishery Products International by a new board of directors. Led by John Risley of Clearwater Fine Foods, a company based in Nova Scotia, a dissident slate of directors succeeded in ousting Victor Young, FPI's popular CEO. FPI is the province's largest seafood processing company, and changes in its leadership were bound to attract a great deal of public attention. Yet the public discussion of the boardroom intrigues ranged far beyond the specific issues of managing the cod fishery or closing processing plants: the FPI controversy revealed the large undercurrent of nationalism in the province's political culture. Intertwined with debates over the future of FPI was a strong nationalist sentiment against allowing outsiders to control Newfoundland's natural resources. Open-line shows in St. John's were filled with callers warning of Nova Scotia pirates trying to rob Newfoundland's fish.[100] In "Lament for FPI," a letter to the editor published shortly after Risley's victory, the corporate struggle was framed in explicitly nationalist terms:

> And so the deed is done without revolt,
> The Island's people
> Neutered by the "stocks" of trade.
> For we are not a nation now,
> But hide beneath the money changer's table
> Fighting to catch the scraps that fall our way.[101]

Such letters voiced the deep unease many people felt about seeing an outsider take over one of the province's most important corporations.

While the FPI crisis unfolded, prominent political figures openly flirted with nationalist rhetoric. Walter Noel, a long-time Liberal MHA and member of Premier Grimes' cabinet, stated publicly that Confederation with Canada has been a poor deal for Newfoundland because it is organized primarily for the benefit of Ontario and Quebec.[102] Although Noel was careful to stress that he opposes separation, his central argument revolves around the nationalist tenet of local control over revenues and resources:

> In 1949 we owned our offshore fish, mineral and petroleum resources, which would have been managed in our best interests, as happened in Iceland and Norway, *if we were an independent country today*. We had employment rates comparable with the rest of the country prior to Confederation, money in the bank (about $40 million, equivalent perhaps to $1 billion today) and little public debt.[103]

The stakes in this critique of Canadian federalism involved more than simply radical regionalism or a renewed provincial-rights movement. In April 2001, James McGrath — a former federal cabinet Minister as well as a former Lieutenant-Governor of Newfoundland and Labrador — called for the establishment of a Royal Commission to examine the adequacy of the Terms of Union.[104] For McGrath, as for Dobbin and others, the crux of the matter is that Newfoundlanders are denied the power to manage their resources in their own best interests. In a sign of how commonplace this debate had become, when a St. John's magazine interviewed people about Newfoundland's status within Canada in July 2001, it phrased the question simply in terms of whether Newfoundland could survive economically as an independent country. None of the five published responses objected to the notion of separating from Canada — the desirability of eventual independence appears to have been assumed — and the answers all focused on the twin issues of economic resources and political management.[105] When Premier Grimes announced the establishment of the Royal Commission on Renewing and Strengthening Our Place in Canada, he felt compelled to stress that separation was "not on the government's agenda."[106]

Yet the spectre of separatism continues to affect provincial politics. In a recent speech at an oil and gas luncheon in St. John's, Craig Dobbin again stoked the flames of Newfoundland nationalism. Dobbin was deliberately provocative, saying "I want to try to shock Newfoundlanders into realizing what's happening -- that our youth are gone, our outport way of life is decimated."[107] He asserted that the province produced $3 billion worth of oil in 2002 but received only $30 million in royalties. Citing this and other examples of resource mismanagement, Dobbin criticized Premier Grimes for signing a poor deal to develop Voisey's Bay and for attempting to "give away" the Lower Churchill. He argued that the federal government should eliminate the "claw back" whereby equalization payments are reduced as the province's revenues increase, and he called on Ottawa to underwrite the development of the Lower Churchill hydroelectric project. Dobbin took pains to emphasize that he was in no way advocating actual separation from Canada, but he threatened that if Newfoundlanders are not permitted to become full partners in Confederation by amending the Terms of Union, "they'll find a way to get out of it."[108] As in his earlier high-profile speeches, Dobbin received a standing ovation, with St. John's Mayor Andy Wells leading the applause. As an editorial in *The Telegram* noted, Dobbin is seen as an extremely astute and well-connected businessman, and his comments must be taken seriously as an indicator of the political climate in Newfoundland and Labrador.[109]

Despite Dobbin's sharp criticism of Premier Grimes, their political views are in many respects quite similar. The recent Speech from the Throne marks a break with the policies of the Wells and Tobin administrations. Its statement on the province's relationship with Ottawa is reminiscent of the nationalist rhetoric of the Peckford era:

> While the province is a partner in the Canadian federation, my Government shares the people's view that we are not truly an equal partner. For a partnership to be truly equal there must be respect on both sides. Unfortunately, at this time, the level of indifference, disinterest and disrespect towards provinces is increasing. This was quite obvious during the recent First Ministers' Meeting on health care. It was also clearly evident in the recent decisions taken with respect to divestiture of the port facility in Stephenville, and the virtual closure of the weather forecasting office in Gander. The federal government has failed to respect the people of this province and this must change.[110]

As a forum for discussing how to respond to such grievances, the government has announced the creation of an all-party symposium to be held each autumn; this year it will focus on the issue of equalization payments. And following the report of the Royal Commission on Renewing and Strengthening our Place in Canada, the Grimes' administration plans to create a "People's Congress," which will discuss the Commission's findings and devise an "action plan."[111] Though the language is vague, these policies appear to form part of a new unilateralist approach whereby most federal-provincial issues are to be debated within neither a bilateral nor a regional framework. Unlike his predecessors, Premier Grimes has focused on provincial rather than national politics, and his initiatives have come the closest to embracing nationalist discourse since the government of Brian Peckford.

The Academic Debate

Accompanying this public discussion has been an academic debate over Newfoundland nationalism and the merits of Confederation. John FitzGerald has been a prominent critic of the impact of the Terms of Union on Newfoundland.[112] Invoking the weight of archival evidence — in a published interview, FitzGerald asserts that "History is incontrovertible on some of this stuff" — he notes that Dobbin and Noel raise legitimate points.[113] FitzGerald views the current reappraisal of Newfoundland's constitutional relationship with Canada as a positive development: "The one thing that is overwhelming in this is that I think people are starting to realize generally that Canada's best interests are not necessarily Newfoundland's best interests....And that's a good thing."[114] His scholarly work makes three main arguments: the Terms of Union were negotiated through an extremely unfair and flawed political process; Confederation has not served the province's economic interests; and joining Canada marked the grievous loss of Newfoundland's nationhood.[115] The popularity of this view was reflected during the special conference convened by the Newfoundland Historical Society to mark the fiftieth anniversary of Confederation, titled "Encounters with the Wolf."[116]

Nationalist historiography has faced significant criticism within the academic community. James Overton and Jeff Webb have, among others, challenged many of FitzGerald's assertions. Overton argues that FitzGerald not only minimizes the degree of poverty in the decades prior to 1949, but also overstates the degree to which rural Newfoundlanders were gullible and easily manipulated by the pro-Confederates. According to Overton, "This line of argument links into a denial that pre-Confederation Newfoundland was poor, and assertions that the loss of responsible government caused the growth of dependence."[117] Pointing out that historical memory is socially constructed, Overton questions whether history can be excavated for incontrovertible facts, and he argues for a more in-depth analysis of the historical context. In a series of provocative articles he has argued that Newfoundland nationalism is purely a post-Confederation invention, founded on populist myths and ideological biases, without authentic roots in the province's history or culture.[118] His monograph on the relationship between the construction of traditional culture and the development of the tourism industry is especially critical of the contrived nostalgia produced for commercial consumption. Overton emphasizes that "the version of the past is always a carefully selected one."[119]

Jeff Webb's work has complemented Overton's analysis. Webb has debunked the conspiracy theory that the vote for Confederation was somehow rigged and outlines how nationalist historiography has perpetuated romantic myths rooted in an interpretation of Newfoundlanders as victims.[120] Webb argues that these myths not only ignore the reality of Newfoundland's history, but also embrace a disturbing right-wing ideology which implicitly rejects the democratic rights Newfoundlanders freely exercised in 1949. In addition to this ideological component, nationalism draws on the wider cultural appeal that conspiracy theories enjoy in the present period of political malaise — in Newfoundland as elsewhere in North America — because they offer a fulfilling romantic fantasy:

> For a generation that came of age under Smallwood, Moores or Peckford, creating a mythology about the idyllic communities before confederation is easy. Other critics will admit to the existence of poverty, but point to the value of the resources that might have made Newfoundlanders wealthy if Canada had not stolen them. While these resources had the theoretical potential to enrich Newfoundlanders, our experience, under several constitutional regimes, has been that the reality of capitalist exploitation of these resources did not benefit most Newfoundlanders very much. In fact, the most hardy perennial in Newfoundland has been the struggle to find a constitutional solution to economic problems.[121]

While acknowledging that the theme of protesting against outside control over natural resources has deep roots in Newfoundland history, Webb maintains that the nationalism expressed by Brian Peckford and others in the 1980s did not exist in the pre-Confederation era.

In addition, Sean's Cadigan's ground-breaking work has undermined some of the central economic tenets of nationalist historiography. Cadigan argues that the inability of the physical environment to sustain substantial agriculture had long-term ramifications for the island's development.[122] With the entrenchment of the reform (subsequently "liberal") agenda in the nineteenth century, Newfoundland governments repeatedly neglected the fishery in favour of agricultural expansion and a series of irresponsible development schemes. Instead of blaming economic underdevelopment on outsiders, Cadigan stresses the twin problems of the island's limited agricultural resources and the legacy of ill-conceived economic policies. He rejects liberal historiography and its conviction that Newfoundland's past could be divided into rungs on a ladder of linear progress. For Cadigan, the history of the nineteenth and twentieth centuries comprised a chronic cycle of missed opportunities to develop a successful economy. Although this argument appears somewhat similar to Peckford's nationalism, Cadigan made his political position clear: "As a Newfoundlander, I do not have much sympathy for Newfoundland nationalists. They must confront history. Federal and provincial policies in Newfoundland over the past fifty years are an extension, not a break, with Newfoundland's pre-Confederation history."[123] In a penetrating review of recent studies of the post-moratorium fishery, Cadigan argues persuasively that myths continue to cloud our understanding of the province's economy.[124]

The Roots of Nationalist Rhetoric

Discussions of nationalism have largely presumed that the loss of nationhood marks the determining watershed in Newfoundland history. With the exception of Cadigan and David Alexander, modern scholarship has largely followed the fault line of 1949, tracing the effects of Confederation and debating whether it has caused Newfoundland's economic underdevelopment.[125] Yet the salient feature of Newfoundland nationalism is the remarkable constancy of its basic rhetoric since the early nineteenth century. Its essential logic has remained basically the same for almost two centuries: Newfoundland has a poor economy but is rich in natural resources; its poverty is due to incompetent resource management by state agencies based outside the island; local authorities have superior technical expertise, moral commitment, and popular legitimacy; the absence of proper policies and administration is caused by the lack of sufficient local control over resource exploitation and allocation; thus the key to prosperity is the transference of power to local political institutions. Nationalist ideology contains three primary ingredients: a version of history constructed to support its aims; an assertion that the panacea for historic economic problems is to adopt a new political system; and a conviction that progress can be made only by increasing local autonomy.

The origins of this perspective stretch back to the beginnings of the island's political culture in the early nineteenth century. Like other colonies during the reform era of the 1810s to the 1830s, Newfoundland witnessed the emergence of the elements needed to support proto-nationalism: a middle class, a bourgeois public sphere, and liberal ideology.[126] Newfoundland nationalism is the progeny of neither cultural exceptionalism nor a unique past; rather, it conforms to the general patterns identified by Eric Hobsbawm and Benedict Anderson.[127] As elsewhere in the colonial world, the St. John's reformers who first campaigned for greater local autonomy — in this case representative government, which was eventually granted in 1832 — invented a history tailor-made to suit their goals. In constructing Newfoundlanders as a special people with unique past, they created a narrative of unremitting tyranny under the system of naval government which had operated since the eighteenth century. Placing the theme of resistence to exploitation at the centre of their rhetoric, the reformers produced the cultural memory on which nationalist ideology was built.[128] Newfoundland differs from most of English Canada, where enthusiasm for British imperialism played a central role in fostering nationalism.[129] Its pattern of nationalism is in many ways similar to the post-colonial societies in Asia and Africa. Edward Said's warning about the troubled relationship between liberation and nationalism is also reflected in Newfoundland, where foreign interests — whether English merchants, Ottawa bureaucrats, or Nova Scotian businessmen — are routinely blamed for all the province's problems.[130]

Early nationalist rhetoric embraced a type of legal determinism which viewed economic growth as a product of constitutional development. Reformers focused overwhelmingly on the socio-economic impact of Newfoundland's system of government. Carson and Morris, like many of their contemporaries, believed that the laws governing Newfoundland had retarded its development: they saw constitutional rights and economic growth as inexorably linked together. The premise that statute law actually restricted settlement — a mistaken supposition that persists to the present day — figured prominently in the writings of both Carson and Morris. Carson noted,

> In the preamble to Act 10 and 11 of William III the commercial advantages of this Island, and its consequence as a nursery for seamen, appear, by the English Legislature, to have been fully known and appreciated. The subsequent laws, and the general policy of its every changing Governors, have not been calculated to enlarge its consequence, or promote its interests. The people have obtained but little increase in their civil rights. Population has been checked by restraining laws: by the prevention of agriculture the

> necessaries of life have at all times been dear; and sometimes difficult to procure.[131]

Though he employed more dramatic rhetoric, Morris made essentially the same point in a public speech:

> If, Gentlemen, you are convinced that the statement I have made of the laws by which Newfoundland has been governed is faithful, you cannot be surprised at the present state of the country. *The most luxuriant country in the world, situated in the most temperate climate, under such laws would become an uninhabitable wilderness.* Governed by such laws, even England would be now in a worse situation than it was at the invasion of Julius Caesar; that country, which is now the boast of every Briton, and the wonder of an admiring world, would most probably at this day be farmed out to a company of Jews, and its inhabitants only employed in extracting coal and tin from its mines.[132]

This type of rhetoric was far from unique to St. John's politics — reformers throughout British North America were using such language in the early nineteenth century — but its determinism remains at the core of Newfoundland nationalism. *If only* Newfoundland had been granted a different constitutional regime, so the argument runs, then its economy would have prospered.

Underpinning this rhetoric was the axiom of locality as political currency. Carson and Morris both employed the argument that obtaining political control over the island's resources marked the critical stage in the evolution of Newfoundland into a mature society. "The system of giving extensive grants to individuals, who are not resident," Carson argued, "is found to be highly injurious to the interests of young colonies." He linked this economic injury directly to its political antecedents: "The causes which have conspired, most powerfully to retard the improvement of this country, will be found to exist in the nature of its Government."[133] Carson combined the twin issues of justice and prosperity under the common goal of achieving local governance. As the conclusion to his 1813 public letter to the people of Newfoundland illustrates, this appeal was framed in the language of liberation:

> You will then walk erect, under the dispensation of a dignified and enlightened justice. Under the fostering care of *a Government who will know you*; a Government founded on the secure basis of defined laws, free from the blasting influence of unjust favouritism, and ill founded antipathy.[134]

Gaining greater political autonomy through representative government would thus produce not only a more prosperous economy, but also a colonial state regulated by the principle of government by public consent.

Displaying essentially the same style and logic, 14 years later Morris was still reiterating Carson's arguments. "It is only under the fostering care of a local government that the trade, fisheries and agriculture of the country can advance," Morris affirmed," adding that the necessary constitutional measures would "give life to the dormant energies of the country, which are now languishing for the want of such encouragement."[135] The crux of the matter was the inherent problem of trying to manage a local economy via an imperial state. The imperial parliament was unable to pass effective legislation for Newfoundland because its members had neither appropriate expertise nor sufficient time to address the colony's changing needs. As Morris put it,

> At present, before the slightest permanent regulation can be made, he [the Governor] has to recommend to his Majesty's ministers to have an act passed in the Imperial Parliament; — he will then have to wait two or three years before the ministers can spare time to attend to his recommendations: But, after devoting his best attention to the subject, and obtaining an Act of Parliament to meet the locality, when it arrives in Newfoundland, it is found quite wide of the object intended. But no matter how ridiculous in some parts, how cruel and unjust in others, it is pressed on the people.[136]

Critics of the Department of Fisheries and Ocean make a strikingly similar argument today, pointing out that the federal government is woefully equipped to meet the needs of outport communities. Under this nationalist tenet, the regulation of a complex local industry from a distant capital — whether London in 1813 or Ottawa in 2003 — is at all times and places a fatally flawed constitutional arrangement.

Conclusions and Recommendations

Like its counterparts in other post-colonial societies, Newfoundland nationalism has inherited a troubled historical legacy. It carries with it the noble rhetoric of liberation but also the parochial seeds of tribalism and the danger of racism. Defining Newfoundland history in terms of binary antagonism — insiders (islanders) versus outsiders (mainlanders) — nationalism places the blame for the island's failures squarely on the shoulders of others. Employing the argument of achieving greater political accountability, it disingenuously seeks to avoid holding Newfoundlanders responsible for their past mistakes. Political autonomy, whether through outright independence or some lesser constitutional variant, represents the ultimate panacea, a cure for every socio-economic ill. From William Carson through to Craig Dobbin, the assumption has been that local control would create superior resource management. The mantra of Newfoundland being rich in natural resources but poor in political leadership has for generations provided a highly effective political tool. Boiled down to its essential components, this logic contains a basic syllogism: non-local administration of revenues and resources produces an incompetent and unjust form of government; Newfoundland has non-local administration of revenues and resources; therefore its form of government is incompetent and unjust. While scholars continue to fixate on Confederation and re-fight the battles of the 1940s, these nationalist assumptions continue to go largely unexamined. The issue of whether full local control over resources would transform Newfoundland's development remains, in fact, an open historical question, despite the simplified perspectives which continue to appear in recent scholarship.[137]

Nationalism in Newfoundland, as elsewhere, has depended on creating the cultural means through which diverse peoples can unite behind a single political goal. It has necessarily entailed the masking of social cleavages – e.g., rural versus urban and, perhaps most importantly, Newfoundlander versus Labradorian – in order to sustain the political coalition and image of unity needed to make the case for constitutional reform. Since the early nineteenth century, elites have relied on nationalism when it served their economic and political interests. Their interest in nationalism has ebbed and flowed in cycles according to the changing political currents and, as business leaders again take a leading role in advocating constitutional reform, their motives and strategies need to be critically evaluated. We must remain wary of rhetoric which seeks to gloss over systemic social problems by attacking outsiders. For example, the columnist Jeffrey Simpson is often held up as a prime example of an outsider who has unfairly maligned this province — indeed, he has a penchant for offering patronizing homilies — but his writings cannot be dismissed as anti-Newfoundland rants. While Simpson has claimed that the province's "culture of grievance" needs to be jettisoned if the Royal Commission is to function properly,[138] he has also argued that "Newfoundland is getting jobbed by a revenue-sharing and equalization package that deprives the province of its just deserts."[139]

Nonetheless, Newfoundland nationalism should be taken seriously as a real force in the province's political culture. For post-colonial societies like Newfoundland, the problem is that nationalism has often provided the socio-political force needed to confront the effects of imperialism. Liberation movements in many former British colonies have used it to fuel resistence to systemic exploitation. As Aijaz Ahmad comments,

> I have long been very suspicious of nationalism, because a great many nationalists strike me as at least very chauvinistic if not altogether fascistic. *But a blanket contempt for all nationalisms tends to slide over the question of imperialism.* I think that those who are fighting against imperialism cannot just forego their nationalism. They have to go through it, transform their nation-state in tangible ways, and then arrive at the other side.[140]

While the recent spate of separatist sentiment will no doubt decline, there are no signs that nationalism will dissipate anytime soon. Opponents of nationalism have tended to separate its rhetoric from the *reality* of Newfoundland history; this creates a false dichotomy of illegitimate (invented current mythology) versus legitimate (genuine past reality). If we are to come to grips with nationalism, we must recognize that it cannot be dismissed out of hand as a presentist sham. While much of nationalist historiography is indeed a recent creation, we cannot assume that other kinds of history are not social constructions as well. Debunking delusive myths is an undeniably important task, but we must not miss the essential point that nationalism is a significant part of Newfoundland's past, rooted in the history of its political and intellectual culture.

Arguably the most important challenge facing the Royal Commission will be to guard against the lure of historical certainty. We must be careful not to replace one set of myths based on cultural traditions with another drawn from historical research. Historians work in the realm of evidentiary probabilities — not absolute certainties — and the facts which we learn about the past are almost never indubitable.[141] The provincial government must not labour under the false premise that historians can agree upon a single fixed history which can be mined for purely dispassionate facts about our past. Historians continue to quarrel over issues such as the impact of the Terms of Union, and the Royal Commission should take pains to consider the diversity of scholarly opinion. Equally important, it should recognize that the twentieth century witnessed dramatic changes in not only our understanding of past events, but also our entire conception of history. Whereas Prowse had celebrated the achievements of Newfoundlanders in the face of adversity, we now tend to see ourselves as trapped by history. With the line between history and heritage becoming increasingly blurred, it is imperative to avoid seeing historical research as a substitute for political debate.[142] Studying the province's history is absolutely critical to understanding our current challenges, but we must keep in mind that the past is as messy and complex as the present.

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Endnotes

[1] George Story, *People of the Landwash: Essays on Newfoundland and Labrador*. Melvin Baker, Helen Peters and Shannon Ryan, eds. (St. John's: Harry Cuff, 1997), p. 120.

[2] D.W. Prowse, *A History of Newfoundland from the English, Colonial, and Foreign Records* (Belleville, Ontario: Mika Studio, 1972 reprint of 1895 ed.), esp. p. 428.

[3] The classic statement of this revisionist scholarship is Keith Matthews, "Historical Fence Building: A Critique of the Historiography of Newfoundland," *Newfoundland Quarterly* 74 (April 1978), pp. 21-29.

[4] Wayne Johnston, *The Colony of Unrequited Dreams* (Toronto: Vintage, 1998).

[5] Stephanie Porter, "Re-releasing *History*: Prowse's History of Newfoundland may be a classic, but it was practically unavailable — until now," *The Express* (27 March-2 April 2002), p. 5. Terming Prowse's work "indispensable reading," Gavin Will, the publisher of the new edition, claimed: "He [Prowse] felt Newfoundland had been done wrong by the individuals who exploited the fishing resources. By not allowing settlement to flourish, they really handicapped the province."

[6] George M. Story, "D.W. Prowse and Nineteenth-century Colonial Historiography," in S. Ryan, ed., *Newfoundland History, 1986* (St. John's, 1986), pp. 34-45. Story's other important essays on Prowse, originally published in the early 1970s, are reprinted in *People of the Landwash*, pp. 77-101 & 116-28.

[7] As Olaf Janzen recently commented, "We overlook, at our peril, the tremendously important additions and alterations made to that understanding during the past century, and in particular during just the last two or three decades." See Olaf U. Janzen, "Prowse is not enough," *The Express* (17-23 April 2002), p. 8. For literature reviews, see Peter Neary, "The Writing of Newfoundland History," in J.K. Hiller and P. Neary, eds., *Newfoundland in the Nineteenth and Twenties Centuries: Essays in Interpretations* (Toronto, 1980), pp. 3-13; Olaf U. Janzen, "Newfoundland and the International Fishery," in M. Brook Taylor, ed., *Canadian History: A Reader's Guide, Volume 1: Beginnings to Confederation* (Toronto: University of Toronto Press, 1994), pp. 280-324; James K. Hiller, "Is Atlantic Canadian History Possible?," *Acadiensis* 30, 1 (Autumn 2000), pp. 16-22.

[8] Eric Hobsbawm, *On History* (London: Abacus, 1997), chs. 1-3 & 21.

[9] John Reeves, *History of the Government of the Island of Newfoundland* (New York: Johnson Reprints, 1967 reprint of 1793 edition), p. 1. For examples of nineteenth-century works influenced by Reeves, see Lewis Amadeus Anspach, *A History of the Island of Newfoundland* (London: T.& J. Allman, 1819); William Carson, *Reasons for the Colonizing the Island of Newfoundland* (Greenock: William Scott, 1813); Patrick Morris, *Remarks on the State of Society, Religion, Morals, and Education at Newfoundland* (London: A. Hancock, 1827).

[10] Patrick O'Flaherty, *Old Newfoundland: A History to 1843* (St. John's: Long Beach Press, 1999), pp. 109-11, 133-34. For an attempt to rehabilitate Reeves' reputation as a historian, see Mark Warren Bailey, "John Reeves, Esq. Newfoundland's First Chief Justice: English Law and Politics in the Eighteenth Century," *Newfoundland Studies* 14, 1 (Spring 1998), pp. 28-49.

[11] Prowse, *History of Newfoundland*, p. xviii.

[12] Ibid., p. xix.

[13] Ibid., p. 428.

[14] Story, *People of the Landwash*, p. 91.

[15] Prowse, *History of Newfoundland*, p. 537.

[16] Ibid., p. 530.

[17] Shane O'Dea, "Judge Prowse and Bishop Howley: Cabot Tower and the Construction of Nationalism," in Iona Bulgin, ed., *Cabot and His World Symposium, June 1997: Papers and Presentations* (St. John's: Newfoundland Historical Society, 1999), pp. 171-82; Peter Pope, *The Many Landfalls of John Cabot* (Toronto: University of Toronto Press, 1997), ch. 5.

[18] Quoted in Story, *People of the Landwash*, p. 122. On this point, see also Neary, "The Writing of Newfoundland History," pp. 4-7.

[19] Story, *People of the Landwash*, p. 121.

[20] See Herbert Butterfield, *The Whig Interpretation of History* (New York: Norton, 1965 reprint of 1931 ed.); E. H. Carr, *What is History?* (London: Penguin, 1961), pp. 40-41.

[21] E.J. Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality* (2nd ed. Cambridge: Cambridge University Press, 1992), esp. ch. 2; Benedict Anderson, *Imagined Communities: Reflections on the Origins and Spread of Nationalism* (2nd ed. New York: Verso, 1991), pp. 198 & 204-06.

[22] A.H. McLintock, *The Establishment of Constitutional Government in Newfoundland, 1783-1832: A Study of Retarded Colonisation* (London: Longmans, Green, 1941), pp. 191-92, Despite the similarities in their interpretations, McLintock termed Prowse's *History* "The standard work on Nfld. but a very poor history."

[23] Jeff A. Webb, "Constructing Community and Consumers: Joseph R. Smallwood's *Barrelman* Radio Programme," *Journal of the Canadian Historical Association* New

Series 8 (1997), esp. pp. 165-67. For the broader context, see Peter Neary *Newfoundland in the North Atlantic World, 1929-49* (Montreal & Kingston: McGill Queen's University Press, 1988); James Hiller, "Newfoundland Confronts Canada, 1867-1949," in E.R. Forbes and D.A. Muise, eds., *The Atlantic Provinces in Confederation* (Toronto & Fredericton: University of Toronto Press and Acadiensis Press, 1993), pp. 349-81.

[24] See Richard Gwyn, *Smallwood: The Unlikely Revolutionary* (Toronto: McClelland & Stewart, 1972); S.J.R. Noel, *Politics in Newfoundland* (Toronto: University of Toronto Press, 1971), ch. 17.

[25] Miriam Wright, *A Fishery for Modern Times: The State and the Industrialization of the Newfoundland Fishery, 1934-1968* (Toronto: Oxford University Press, 2001), esp. chs. 5-6.

[26] Leslie Harris, *Newfoundland and Labrador: A Brief History* (Toronto: J.M. Dent & Sons, 1968).

[27] Harris, *Newfoundland and Labrador*, p. 67

[28] Ibid., p. 85.

[29] Ibid., p. 88.

[30] Ibid., p. 169.

[31] James Overton, "Sparking A Cultural Revolution: Joey Smalllwood, Farley Mowat, Harold Horwood and Newfoundland's Cultural Renaissance," *Newfoundland Studies* 16, 2 (Fall 2000), pp. 166-201.

[32] Sandra Gwyn, "The Newfoundland Renaissance," *Saturday Night* 91, 2 (April 1976), p. 45.

[33] Ibid., p. 45.

[34] According to Guy, "After Confederation and before it, there was an inferiority complex in Newfoundland — especially when the Yanks marched in here, and they all had teeth and were plump. After Confederation, Joey and his crowd harped on it for their own aggrandizement. The world started in 1949 (according to Smallwood) — before that, there was only depravity, poverty and corruption." See Mark Paddock, "The Ray Guy Philosophy," *The Express* (3 February 1993), p. 9.

[35] Gerald Pocius, *A Place to Belong: Community Order and Everyday Space in Calvert, Newfoundland* (Montreal & Kingston: McGill-Queen's University Press, 1991), pp. 21-24 & 272-79. For an overview of the international context, see David Lowenthal, *The Heritage Crusade and the Spoils of History* (Cambridge: Cambridge University Press, 1998), esp. ch. 1.

[36] See, *inter alia*, John Szwed, *Private Cultures and Public Imagery: Interpersonal Relations in a Newfoundland Peasant Society* (St. John's: ISER, 1966); Melvin Firestone, *Brothers and Rivals: Patrilocality in Savage Cove* (St. John's: ISER, 1967); Herbert Halpert

and G.M. Story, eds., *Christmas Mumming in Newfoundland: Essays in Anthropology, Folklore, and History* (2nd ed. Toronto: University of Toronto Press, 1990).

[37] James Overton, *Making a World of Difference: Essays on Tourism, Culture and Development in Newfoundland* (St. John's: ISER, 1996), esp. chs. 5-7. On the concept of folklorism, see Elke Dettmer, "Folklorism In Newfoundland," in G. Thomas and J.D.A. Widdowson, eds., *Studies in Newfoundland Folklore: Community and Process* (St. John's: Breakwater, 1991), pp. 169-76.

[38] Ian McKay, *The Quest of the Folk: Antimodernism and Cultural Selection in Twentieth-Century Nova Scotia* (Montreal & Kingston: McGill-Queen's University Press), p. 13.

[39] Ibid., p. 13. On the problem of constructing a static "traditional" folklore, see also Pocius, *A Place to Belong*, pp. 272-99.

[40] Keith Matthews, "History of the West of England - Newfoundland Fishery." (D.Phil. thesis, Oxford University, 1968); Keith Matthews, *Lectures on the History of Newfoundland, 1500-1830* (St. John's: Breakwater Books, 1988), pp. 181-84. Matthews' "Lectures" were originally written and distributed in the early 1970s.

[41] Keith Matthews, "The Class of '32: St. John's Reformers on the Eve of Representative Government," *Acadiensis*, 6, 2 (Spring 1977), pp. 80-94.

[42] Keith Matthews, "Historical Fence Building: A Critique of the Historiography of Newfoundland," *Newfoundland Quarterly* 74 (Spring 1978), pp. 21-30.

[43] See, *inter alia*, F.W. Rowe, "Myths of Newfoundland," *Newfoundland Quarterly* 74, 4 (Winter 1979), pp. 3-16; Eric Sager, "Newfoundland's historical Revival and the Legacy of David Alexander," *Acadiensis* 11, 1 (Autumn 1981), pp. 104-15; Neary, "The Writing of Newfoundland History," pp. 3-13; Janzen, "Newfoundland and the International Fishery," pp. 280-324; Hiller, "Is Atlantic Canadian History Possible?," 16-22; Jerry Bannister "'A Species of Vassalage': The Issue of Class in the Writing of Newfoundland History," *Acadiensis* 24, 1 (Autumn 1994), pp. 134-44; Ingrid Botting, et al., "Evolutions in Research on Resource Development in Newfoundland, 1960 to the Present." (Paper presented to the Atlantic Canada Studies Workshop, October 1999).

[44] Patrick O'Flaherty, *The Rock Observed: Studies in the Literature of Newfoundland* (Toronto: University of Toronto Press, 1979), p. 80.

[45] See David Alexander, "New Notions of Happiness: Nationalism, Regionalism, and Atlantic Canada," in Eric Sager, Lewis Fischer, and Stuart Pierson, eds., *Atlantic Canada and Confederation: Essays in Canadian Political Economy*, by David Alexander (Toronto: University of Toronto Press, 1983), ch. 5. Matthews' review article had, rather fittingly, appeared in a special issue of the *Newfoundland Quarterly* (Spring 1978), which featured 10 papers by prominent local scholars (including George Story, Harold Paddock and David Alexander), on the problem of Newfoundland's place in Confederation.

[46] James Overton, "Towards a Critical Analysis of Neo-Nationalism in Newfoundland," in Robert J. Brym and R. James Sacouman, eds., *Underdevelopment and Social Movements in Atlantic Canada* (Toronto: New Hogtown Press, 1979), pp. 219-49.

[47] Harry Hiller, "Dependence and independence: emergent nationalism in Newfoundland," *Ethnic and Racial Studies* 10, 3 (July 1987), pp. 257-75.

[48] Ibid., pp. 270-72. For overviews of politics in the 1980s, see E.R. Forbes, "Epilogue: The 1980s," in E.R. Forbes and D.A. Muise, eds., *The Atlantic Provinces in Confederation* (Toronto & Fredericton: University of Toronto Press and Acadiensis Press, 1993), pp. 512-14; Margaret R. Conrad and James K. Hiller, *Atlantic Canada: A Region in the Making* (Toronto: Oxford University Press, 2001), ch. 11.

[49] Ronald Rompkey, "The Idea of Newfoundland and Arts Policy Since Confederation," *Newfoundland Studies* 14, 2 (Fall 1998), pp. 272-74.

[50] A. Brian Peckford, *The Past in the Present: A Personal Perspective on Newfoundland's Future* (St. John's: Harry Cuff, 1983), pp. 42, 44, 60.

[51] David Alexander, *The Decay of Trade: An Economic History of the Newfoundland Saltfish Trade, 1935-1965* (St. John's: Institute of Social and Economic Research, 1977), esp. pp. 1-19.

[52] Peckford, *Past in the Present*, p. 79. On Peckford's use of rhetoric, see James Overton, "Oil and Gas: The Rhetoric and Reality of Development in Newfoundland," in R. Clark, ed., *Contrary Winds: Essays on Newfoundland Society in Crisis* (St. John's: Breakwater Books, 1986), pp. 150-75; Robert Paine, *Ayatollahs and Turkey Trots: Political Rhetoric in the New Newfoundland* (St. John's: Breakwater Books, 1981), ch. 1.

[53] Peckford, *Past in the Present*, p. 35.

[54] Ibid., pp. 35-36.

[55] Ibid., pp. 104-05.

[56] Ibid., p. vi.

[57] Jackson presented his views in a series of columns in the *Evening Telegram* and in the articles, such as, "Can Newfoundland Survive? Thoughts on Traditional Values and Future Prospects," *Newfoundland Quarterly* 75, (1979), pp. 3-11; "Local Communities and the Culture Vultures," *Newfoundland Quarterly* 81 (1986), pp. 7-10.

[58] F.L. Jackson, *Surviving Confederation: A Revised and Extended Version of "Newfoundland in Canada"* (St. John's: Harry Cuff, 1986), p. 21. Original italics.

[59] Ibid., p. 35.

[60] Ibid., p. 37.

[61] Ibid., p. 55.

[62] F.L. Jackson, "The Marxist Mystification of Newfoundland History," *Newfoundland Studies* 6, 2 (1990), pp. 267-81; F.L. Jackson, "People and Place: The Academic Celebration of Outport Life," *Newfoundland Studies* 7, 2 (1991), pp. 203-10.

[63] James Overton, "A Newfoundland Culture?," *Journal of Canadian Studies* 23, 1 (1988), pp. 5-22.

[64] Jackson, *Surviving Confederation*, pp. 37-38.

[65] Ray Guy, *You May Know Them as Sea Urchins, Ma'am*, Eric Norman, ed. (St. John's: Breakwater Books, 1975), pp. 104-22; David Benson, "Dutch Arses and Cargo Cults," *TickleAce: A Journal of Literary and Visual Art* 37 (2000), pp. 70-86. O'Flaherty's views appear to have changed over time: in 1975, for example, he argued that Confederation represented a break in the pattern of historic failure; 20 years later he is far less sanguine. See Patrick O'Flaherty, "Looking backwards: the milieu of the old Newfoundland outports," *Journal of Canadian Studies* 10 (1975), pp. 3-9; Patrick O'Flaherty, *Come Near at your Peril: A Visitor's Guide to the Island of Newfoundland* (3rd ed. St. John's: Long Beach Press, 1998), pp. 14-27.

[66] Keith Matthews, E. Rex Kearley and Paul Dwyer, *Our Newfoundland and Labrador Cultural Heritage* (Scarborough, Ontario: Prentice-Hall, 1984).

[67] Matthews, Kearley and Dwyer, *Our Newfoundland and Labrador Cultural Heritage*, p. 302.

[68] Ibid., p. 304.

[69] Ibid., p. 336. This section of the textbook was titled in Peckfordian language as "The Past Points to the Future."

[70] Ibid., p. 336.

[71] Claire Hoy, *Clyde Wells: A Political Biography* (Toronto: Stoddart, 1992), pp. 140-41.

[72] Ibid., p. 141.

[73] Douglas M. Brown, "Sea-Change in Newfoundland: From Peckford to Wells," in Ronald L. Watts and Douglas M. Brown, eds., *Canada: The State of the Federation, 1990* (Kingston: Institute of Intergovernmental Relations, Queen's University, 1990), pp. 200-02.

[74] Quoted in Hoy, *Clyde Wells*, p. 151. See also Richard Gwyn, "That was your fifteen minutes, Clyde Wells," *Saturday Night* 106, 1 (January/February 1992), pp. 28-34.

[75] Quoted in Hoy, *Clyde Wells*, p. 138.

[76] On the failure of the Meech Lake Accord, see Deborah Coyne, *Roll of the Dice: Working with Clyde Wells during the Meech Lake Negotiations* (Toronto: James Lorimer, 1992); Andrew Cohen, *The Deal Undone: The Making and Breaking of the Meech Lake Accord* (Vancouver/Toronto: Douglas and McIntyre, 1991).

[77] On Tobin's involvement in provincial politics, see Douglas Letto, *Run: Brian Tobin's Quest for a Second Term* (Paradise, NL: Blue Hill, 1999); Major, *As Near to Heaven by Sea*, pp. 456-60. On the national context, see Donald Savoie, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999).

[78] On the rise of regionalism in Canada, see Donald Savoie, "All Things Canadian Are Now Regional," *Journal of Canadian Studies* 35, 1 (Spring 2000), pp. 203-16.

[79] E. Annie Proulx, *The Shipping News* (New York: Touchstone, 1993); Bernice Morgan, *Random Passage* (St. John's: Breakwater, 1992); Bernice Morgan, *Waiting for Time* (St. John's: Breakwater, 1994); John Steffler, *The Afterlife of George Cartwright* (Toronto: McClelland & Stewart, 1992); Gordon Rodgers, *A Settlement of Memory* (St. John's: Killick, 1999); Michael Crummey, *River Thieves* (Toronto: Doubleday, 2001).

[80] David Macfarlane, *The Danger Tree: Memory, War, and the Search for a Family's Past* (Toronto: Macfarlane Walter & Ross, 1991).

[81] Steffler, *Afterlife of George Cartwright*, p. 294 ["Author's Note"].

[82] Ibid., p. 294 ["Author's Note"].

[83] See Stuart Pierson, "Review of John Steffler, *The Afterlife of George Cartwright*," *Newfoundland Studies* 8, 2 (1992), pp. 202-20; Gordon Inglis, "Truth and Fiction," *Newfoundland Studies* 16, 1 (2000), pp. 67-77.

[84] A.S. Byatt, *On Histories and Stories: Selected Essays* (New York: Vintage, 2001), p. 38.

[85] *Secret Nation*. Director: Michael Jones, Screenwriter: Ed Riche, Producer: Paul Pope. Newfoundland Independent Film-makers' Co-Operative and Telefilm Canada, 1992. 109 minutes. On the use of history in the film, see John Edward FitzGerald, "Newfoundland Politics and Confederation Revisited: Three New Works," *Newfoundland Studies* 9, 1 (Spring 1993), pp. 103-24.

[86] Des Walsh, "March 3, 1999: Notes on an Upcoming Anniversary," *TickleAce: A Journal of Literary and Visual Art* 37 (2000). The poem was part of a "Special Confederation 50 Issue," edited by Bruce Porter. Walsh's nationalist view of history is not exceptional in the local arts community. In the screenplay "Power of the Unemployed," for example, Chris Brooks and Kathryn Welbourn portrayed the suspension of responsible government in 1934 as the means through which a tyrannical ruling elite oppressed working-class Newfoundlanders. Directed by David Ferry, "Power of the Unemployed" was performed in St. John's by the Resource Centre for the Arts Theatre Company in May 2001.

[87] Wayne Johnston, "*A History of Newfoundland* — D.W. Prowse [and] *The Newfoundland Journal of Aaron Thomas, 1794* — Aaron Thomas," in Michael Ondaatje, et al., eds., *Lost Classics* (Toronto: Knopf, 2000), p. 140.

[88] Simon Schama, *Dead Certainties (Unwarranted Speculations)* (New York: Vintage, 1991), p. 320.

[89] Johnston, *The Colony of Unrequited Dreams*, p. 49.

[90] Ibid., p. 65. See the following chapter titled "The Book."

[91] Ibid., p. 191.

[92] Ibid., p. 211. My italics.

[93] Edmund Morris, *Dutch: A Memoir of Ronald Reagan* (New York: Random House, 1999).

[94] Stuart Pierson, "Johnston's Smallwood," *Newfoundland Studies* 14, 2 (1998), pp. 282-300.

[95] Frank Holden, *Judge Prowse Presiding: A Play about the Rugged World of 19th Century Newfoundland* (St. John's: Published by the Author, 1987), pp. 1-44. The first production of the play was directed by Marion Cheeks and staged at the LSPU Hall in June 1986.

[96] Lowenthal, *The Heritage Crusade*, p. xv.

[97] H. J. Kirchhoff, "He'll take Manhattan...[interview with Wayne Johnston]" *The Globe and Mail* (August 31, 2002), p. D3.

[98] John Ibbitson, "Newfoundland Looking out to Sea," *The Globe and Mail* (October 7, 2000), p. A3.

[99] Craig Westcott, "New found nationalism: Political and Business elite make the case for a new deal with Canada," *The Express* (25 February 2001), p. 3.

[100] For a summary of the FPI controversy, see the editorial, "You win, Mr. Risley...so what happens now?," *The Telegram* (3 May 2001), p. 6.

[101] Larry Small, "Lament for FPI," *The Telegram* (13 May 2001), p. 7.

[102] See Noel's comments quoted in Westcott, "New found nationalism," pp. 3-4.

[103] Quoted in Dee Murphy, "We Got Gypped: MHA Walter Noel explains why Newfoundland got the raw deal in Confederation with Canada," *Downhomer* 14, 1 (June 2001), p. 19. Emphasis added.

[104] James McGrath, "Time to revisit the Terms of Union," *The Express* (4/10 April 2001), p. 8.

[105] Leslie Doyle, "Do you think Newfoundland could survive on it's [sic] own?," *The Newfoundland Herald* (30 July 2001), p. 9. The responses were: (1) "I think we could definitely survive on our own. There is no shortage of resources in this province, they have just been managed terribly"; (2) "I don't think so. Being an island it would be very difficult and with the way the resources are being managed today it just doesn't seem possible"; (3) "I don't think we could survive on our own. The provincial government needs to be stronger and get back what we're entitled to. So until then, no"; (4) "There's really no reason why we couldn't. We have everything here to be prosperous but we are not being managed properly"; (5) "Absolutely not. First of all the unemployment rate is too high here. Something has to be done about that first, and secondly we need better leadership."

[106] See "Vic Young to head up commission on Confederation," *The Telegram* (20 April 2002), p. A3.

[107] Quoted in Moira Baird, "Mediocre politicians harming province: Dobbin," *The Telegram* (27 February 2003), p. A1.

[108] Ibid.

[109] "Dobbin has his finger on political pulse [lead editorial]," *The Telegram* (1 March 2003), p. A10.

[110] *Speech From the Throne. Building Our Future Together: The New Newfoundland and Labrador.* Delivered at the Opening of the Fifth Session of The Forty-Fourth General Assembly of the Province of Newfoundland and Labrador on Wednesday, March 19, 2003. (St. John's: Government of Newfoundland and Labrador, 2003), pp. 25-26.

[111] Ibid., p. 29.

[112] See John Edward FitzGerald, "Newfoundland Politics and Confederation Revisited: Three New Works," *Newfoundland Studies* 9, 1 (Spring 1993), pp. 103-24; John Edward FitzGerald, "The Orthodoxy Unchallenged: On Raymond Blake's *Canadians at Last*," *Newfoundland Studies* 11, 1 (1995), pp. 127-44; John Edward FitzGerald, "'The True Father of Confederation'?: Archbishop E.P. Roche, Term 17, and Newfoundland's Confederation with Canada," *Newfoundland Studies* 14, 2 (Fall 1998), pp. 188-213.

[113] See FitzGerald's comments quoted in Westcott, "New found nationalism," pp. 3-4.

[114] Ibid.

[115] See John Edward FitzGerald, "'The Difficult Little Island' That 'Must Be Taken In': Canadian Interests in Newfoundland During World War Two," *Newfoundland Quarterly* (Spring 2001), pp. 21-28.

[116] The symposium was organized by the Newfoundland Historical Society and held in February 1999 at St. John's. The "Wolf," i.e. Canada, is an allusion to a verse in a popular anti-Confederate song, circa 1869.

[117] James Overton, "Poverty, Dependence and Self-Reliance: Politics, Newfoundland History and the Amulree Report of 1933," in Garfield Fizzard, ed., *Amulree's Legacy: Truth, Lies and Consequences Symposium, March 2000, Papers and Presentations* (St. John's: Newfoundland Historical Society, 2001), p. 65.

[118] See, *inter alia*, James Overton, "Towards a Critical Analysis of Neo-Nationalism in Newfoundland," in Robert J. Brym and R. James Sacouman, eds., *Underdevelopment and Social Movements in Atlantic Canada* (Toronto: New Hogtown Press, 1979), pp. 219-49; James Overton, "Economic Crisis and the End of Democracy: Politics in Newfoundland During the Great Depression," *Labour/Le Travail* 26 (1990), pp. 85-124; James Overton, "Academic Populists, the Informal Economy and Those Benevolent Merchants: Politics and Income Security Reform in Newfoundland," *Journal of Peasant Studies* 28, 1 (October 2000), pp. 1-54.

[119] James Overton, *Making a World of Difference: Essays on Tourism, Culture and Development in Newfoundland* (St. John's: Institute of Social and Economic Research, 1996), p. 147.

[120] Jeff Webb, "Confederation, Conspiracy and Choice: A Discussion," *Newfoundland Studies* 14, 2 (Fall 1998), pp. 169-87; Jeff Webb, "The Way It Was Done: How Newfoundlanders Chose Confederation," *Newfoundland Quarterly* New Series (December 2002), pp. 25-32.

[121] Webb, "Confederation, Conspiracy and Choice," p. 181.

[122] Sean Cadigan, *Hope and Deception in Conception Bay: Merchant-Settler Relations in Newfoundland, 1785-1855* (Toronto: University of Toronto Press, 1995).

[123] Sean Cadigan, "Missed Opportunities: The Rock at Fifty," *The Beaver* 79, 1 (March 1999), p. 7.

[124] Sean Cadigan, "Whose Fish? Science, Ecosystems and Ethics in Fisheries Management Literature since 1992," *Acadiensis* 31, 1 (Autumn 2001), pp. 171-95.

[125] Aside from Cadigan's studies, noted above, the most notable exception is, of course, the work of David Alexander. See especially "Development and Dependence in Newfoundland, 1880-1970," in David Alexander, *Atlantic Canada and Confederation: Essays in Political Economy*, compiled by Eric Sager, Lewis R. Fishcher, and Stuart O. Pierson. (Toronto: University of Toronto Press, 1983), pp. 3-30.

[126] For overviews of this process in the British colonies which later joined Confederation, see Allan Greer, "Historical Roots of Canadian Democracy," *Journal of Canadian Studies* 34, 1 (Spring 1999), pp. 7-25; Jerry Bannister, "The Rhetoric of British Justice in Colonial Reform Movements, 1815-1841." (Paper presented to the American Society for Legal History, October 1999).

[127] E.J. Hobsbawm, *Nations and Nationalism since 1780: Programme, Myth, Reality* (2nd ed. Cambridge: Cambridge University Press, 1992); Benedict Anderson, *Imagined Communities: Reflections on the Origins and Spread of Nationalism* (2nd ed. New York: Verso, 1991); and Eric Hobsbawm, *On History* (London: Abacus, 1997), esp. ch. 21.

[128] On the process of creating cultural memory, see Jacques Le Goff, *History and Memory*. Steven Rendall & Elizabeth, trans. (New York: Columbia University Press, 1992), pp. esp. 150-51.

[129] D. R. Owram, "Canada and the Empire," in Robin Winks, ed., *Oxford History of the British Empire, Volume V: Historiography* (Oxford: Oxford University Press, 1999), pp. 146-48.

[130] Edward Said, *Culture and Imperialism* (New York: Vintage Books, 1993), ch. 5.

[131] William Carson, *Reasons for Colonizing the Island of Newfoundland, in a Letter Addressed to the Inhabitants* (Greenock: William Scott, 1813), p. 6.

[132] Anon, *A Report of Certain Proceedings of the Inhabitants of the Town of Saint John, in the island of Newfoundland, with the view to obtain a REFORM of the LAWS, more particularly in the mode of their administration, and an INDEPENDENT LEGISLATURE* (St. John's: Printed by Lewis Ryan, 1821), p. 50. Emphasis added.

[133] Carson, *Reasons for Colonizing the Island of Newfoundland*, p. 10.

[134] Ibid., p. 24. Emphasis added.

[135] Patrick Morris, *Remarks on the State of Society, Religion, Morals, and Education at Newfoundland* (London: A Hancock, 1827), pp. 47-48.

[136] Ibid., p. 48.

[137] In a recent article comparing the historical development of Newfoundland and Prince Edward Island, David Milne asserts: "For Newfoundland, it was the British merchant class of the West Country that conspired to stunt Newfoundland's development to ensure their own economic interests in a migratory fishery. But the rich cod fishery had, in any event, always been the scene of greedy conflict and ambition by outsiders, where the rules were set without Newfoundland's own priorities in mind." See David Milne, "The Federal Model: Newfoundland and Prince Edward Island," in Godfrey Baldacchino and David Milne, eds., *Lessons from the Political Economy of Small Islands: The Resourcefulness of Jurisdiction* (London and Charlottetown: Macmillan Press and Institute of Island Studies, University of Prince Edward Island, 2000), p. 80.

[138] Jeffrey Simpson, "Pitch the culture of grievance overboard," *The Globe and Mail* (August 30, 2002), p. A15.

[139] Jeffrey Simpson, "Just another Canadian fault line," *The Globe and Mail* (November 19, 2002), p. A23. For other columns in which Simpson displays a marked sympathy to some of the province's economic problems, see Jeffrey Simpson, "The balancing act of Roger Grimes," *The Globe and Mail* (August 21, 2002), p. A13; Jeffrey Simpson, "Between the Rock and a hard place," *The Globe and Mail* (November 16, 2002), p. A17.

[140] Aijaz Ahmad, "Culture, Nationalism, and the Role of Intellectuals," in Ellen Meiksins Wood and John Bellamy Foster, eds., *In Defense of History: Marxism and the Postmodern Agenda* (New York: Monthly Review Press, 1997), p. 53. Emphasis added.

[141] As E.H. Carr stated in his classic study, history is "a continuous process of interaction between the historian and his facts, an unending dialogue between the past and the present." See E.H. Carr, *What is History?* (London: Penguin, 1961), p. 30.

[142] This is not to suggest that historical research cannot help us chart current trends or imagine the future: my point is simply that it cannot be examined in isolation from contemporary politics. As Neil Postman explains: "To forget our mistakes is bad. But to forget out successes may be worse. In remembering the past, we must keep in mind that, while it is no illusion, it is elusive, a collection of shadowed memories immersed in ambiguities, wish fulfilments, and oversimplifications. Nonetheless, there is something there to see, to learn from, to provide material for new myths. There *is* a there there, and it will show itself though the windshield if we look hard enough in the rearview mirror." See Neil Postman, *Building a Bridge to the 18th Century: How the Past Can Improve Our Future* (New York: Vintage, 1999), p. 6.

Royal Commission on Renewing
and Strengthening Our Place in Canada

The Terms of Union: An Analysis of their Current Relevance

— Stephen May

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 161
Negotiation of the Terms of Union 162
Comparison with Other Provinces 166
Interpreting the Terms of Union 169
The Terms of Union – The Impact of Specific Provisions 177
  Fisheries Laws (Term 22) 177
  Financial Arrangements (Terms 23 – 29) 177
  Term 31 180
  Term 32 182
  Ownership and Management of Offshore Mineral Resources (Term 37) 184
  Term 17 186
  Term 46 188
Conclusion 189

Endnotes 191

Introduction

On 11 December 1948, Canada and Newfoundland[1] entered into a Memorandum of Agreement establishing the terms under which Newfoundland would join Canada as its tenth province. Referred to as the Terms of Union, their execution marked the culmination of two sets of negotiations between Newfoundland and Canada. The Terms of Union were incorporated into the *Newfoundland Act* passed by the Parliament of the United Kingdom to effect the joining of Newfoundland with Canada[2] which declared that the Terms of Union "shall have the force of law." The Terms of Union have been described as the "constitutional ground rules"[3] under which Newfoundland would operate as a Canadian province. From this background, a person could not be faulted for assuming that the Terms of Union remain relevant to the political, economic and social issues facing Newfoundland in the 21st century.

A significant amount of research has been conducted regarding the political events leading up to the decision of the people of Newfoundland in the second 1948 referendum to choose Confederation instead of returning to Responsible Government. There also have been studies on the negotiations leading to the Terms of Union. This paper analyzes the relevance of the Terms of Union more than 50 years following Newfoundland's union with Canada. What is the test of "relevance" in 2003 when speaking of the Terms of Union? That must be to focus on the question of whether the Terms of Union can be adapted to deal with the contemporary political, economic and social issues affecting Newfoundland and Labrador. In answering this question, the paper shall:

- give an overview of the negotiations leading to the Terms of Union;
- compare the Terms of Union with the negotiated arrangements leading to British Columbia and Prince Edward Island joining Canada and with the legislation establishing Manitoba, Saskatchewan, and Alberta as Canadian provinces;
- explain modern legal principles governing the interpretation of constitutional documents and how they have been applied to the Terms of Union; and,
- assess the impact of the Terms of Union as a constitutional instrument within the Canadian federation, particularly:
    1. Fiscal arrangements (Terms 23 – 28);
    2. The 8th year review of fiscal arrangements (Term 29);
    3. The initial five-year fisheries arrangement (Term 22);
    4. Public services assumed by Canada (Term 31);
    5. Ferry service and railway rate regulation (Term 32); and,
    6. The impact of Term 3 and Term 37 on the issues concerning ownership and management of offshore mineral resources.

The Terms of Union have been interpreted in a number of Court decisions since Confederation. Therefore, any assessment of the continued relevance of the Terms of Union must address how modern legal principles governing the interpretation of constitutional documents have been applied to them.

The paper's conclusion is that the force and effect of the Terms of Union essentially have been "spent". In other words, the Terms of Union have little practical application to current federal-provincial political and financial relationships. Legal principles that have governed, and continue to govern, the interpretation of the Terms of Union will not change this situation. Rather, asserting the Terms of Union in trying to expand Confederation's benefits to the province could result in an interpretation, based on current legal principles, having the opposite effect.

Negotiation of the Terms of Union

In 1933, the Government of Newfoundland made a formal request to the United Kingdom that it legally suspend Newfoundland's constitution in favour of having its political, social and economic affairs managed by a Commission of Government. The Commission of Government[4] was comprised of a Governor and six Commissioners; three from the United Kingdom and three from Newfoundland. All were appointed by the Government of the United Kingdom. The Commission of Government was to manage Newfoundland's affairs until such time as Newfoundland could support itself financially, whereupon, at the request of the Newfoundland people, Responsible Government would be restored.

The mechanism by which Newfoundland would determine its financial status and its future form of government was announced on 11 December 1945 by the Right Honourable Clement Attlee, Prime Minister of the United Kingdom. He announced that an elected National Convention of Newfoundlanders would be convened to:

> "... [C]onsider and discuss amongst themselves, as elected representatives of the Newfoundland people, the changes that have taken place in the financial situation of the Island since 1934, and bearing in mind the extent to which the high revenues of recent years have been due to war time conditions, to examine the position of the country and to make recommendations to His Majesty's Government as to possible forms of future government to be put before the people at a national referendum"[5]

After hearing of Prime Minister Attlee's announcement, Joseph R. Smallwood decided that he would run in the constituency of Bonavista Centre[6] on a platform that sought union with Canada. He would become the Convention's leading advocate of confederation with Canada. While he was supported by others, the majority of the Convention's members favoured a return to self-rule. Nevertheless, Smallwood, through his research of Canada's political and social welfare framework, and his use of broadcasts of the Convention debates to attract the public's attention to the Confederation option, was able to obtain the Convention's support for a resolution to send a delegation to Ottawa to obtain terms under which Canada would be prepared to accept Newfoundland as a province (the "Resolution"). The resolution to send the delegation read:

> "RESOLVED that the National Convention desires to send a delegation consisting of the Chairman and six other of its members to Ottawa to

> ascertain from the Government of Canada what fair and equitable basis may exist for federal union of Newfoundland and Canada."[7]

While the Resolution did not specify or rank the importance of terms that would form the "fair and equitable basis" for union, financial terms would become the primary focus of the Newfoundland delegation's discussions with Canadian officials. There were minimal, even negligible, discussions relating to Newfoundland, as a Canadian province, maintaining an influence over federal decisions having a significant impact on its economy or society. There were various political and constitutional factors that hindered such negotiations.

As recognized by the Lewis Royal Commission, appointed by the Government of Newfoundland in 1953 to prepare the Province's case under Term 29 (to be discussed further in this paper), the delegation that was sent to Ottawa in 1947 (the "1947 Newfoundland delegation") had no authority to negotiate terms.[8] The convention only authorized the 1947 Newfoundland delegation to ascertain the basis upon which Canada was prepared to accept Newfoundland's entry into the country.[9] This was consistent with the National Convention's decision to send another delegation to London to ascertain accommodations that the United Kingdom was prepared to make with respect to Newfoundland's national debt, the granting of interest free loans, and the future economic position of Newfoundland[10] should there be a return to Responsible Government. Each delegation's role was essentially investigative, with each delegation's primary focus being on the nature of financial assistance that would be available to Newfoundland. This focus was not conducive to the negotiation of complex constitutional arrangements with Canada.

Other factors constrained the negotiation of provisions permitting Newfoundland to have influence over matters falling within federal jurisdiction. One was the Canadian Constitution itself. At the time of the Newfoundland delegation's discussions with the Government of Canada, the *British North America Act, 1867* (later amended to be *the "Constitution Act, 1867")*, which operated as Canada's constitution, could only be amended by the Parliament of the United Kingdom. The powers prescribed to the federal and provincial governments were set out in sections 91 and 92 of the *Constitution Act, 1867.* Those sections have been described as "watertight compartments," meaning that as a province of Canada, Newfoundland could not interfere with the right of the Government of Canada to pass laws on matters reserved to it under section 91 of the *Constitution Act, 1867.* Therefore, if any accommodations were to be made to Newfoundland that were outside this constitutional structure, they would require amendment to the *British North America Act, 1867.*

Although Newfoundland had not joined Nova Scotia, New Brunswick, Ontario and Quebec in the original 1867 union to form Canada, provision for its potential inclusion had not been overlooked. Section 146 of the *Constitution Act, 1867* provided:

> 146. It shall be lawful for the Queen, by and with the Advice of Her Majesty's Most Honourable Privy Council, on Addresses from the Houses of the Parliament of Canada, and from the Houses of the respective Legislatures of the Colonies or Provinces of Newfoundland, Prince Edward Island, and British Columbia, to admit those Colonies or Provinces, or any of them, into the Union, and on Address from the Houses of the Parliament of Canada to admit Rupert's Land and the North-western Territory, or either of them, into the Union on such Terms and Conditions in each Case as are in the Addresses

> expressed and as the Queen thinks fit to approve, ***subject to the Provisions of this Act***; and the Provisions of any Order in Council in that behalf shall have effect as if they had been enacted by the Parliament of the Union Kingdom of Great Britain and Ireland.
>
> (emphasis added)

The wording of section 146, permitting the inclusion of Newfoundland as a province under terms and conditions that would be subject to the *Constitution Act, 1867*, discouraged the negotiation of terms with Newfoundland that would result in a derogation of the federal powers enumerated under section 91. Since the only recourse to amend the *Constitution Act, 1867* was through the British Parliament, the Canadian Government could not unconditionally agree to any constitutionally-guaranteed power transfer or power sharing arrangement that would have to be confirmed by the Parliament of the United Kingdom. Conceptually, the Government of Canada could have agreed to incorporate power sharing arrangements with Newfoundland under the *Newfoundland Act*. However, politically it would have been extremely hesitant to do so where similar permanent provisions had not been established for the other provinces. Prime Minister Mackenzie King and the Minister of External Affairs, Louis St. Laurent, who was the chair of the federal Cabinet Committee negotiating the Terms of Union with Newfoundland, did not want the Terms of Union to be seen to be more generous than existing arrangements with the other provinces.[11] In such a political atmosphere, even if the Newfoundland delegation had asked for any power transfer or sharing arrangements, it was unlikely they would have been accepted by Canada.

The impact of Newfoundland's financial concerns on the 1947 negotiations cannot be underestimated. Financial assistance that the potential Province could expect from the Government of Canada provided the focus for most of the negotiations.

The Government of Canada, prior to the arrival of the 1947 Newfoundland delegation in Ottawa, knew that, even with its assumption of certain public services after union, Newfoundland's public debt and its limited ability to raise revenues would hamper its ability to finance programs and services to a level commensurate with the programs and services provided by the other Canadian provinces. Newfoundland's scattered population, its economy, and the loss of its ability to impose custom tariffs (the latter becoming a federal responsibility after Confederation), would contribute to an estimated minimum annual provincial deficit of $5 million.[12] These concerns about Newfoundland's finances were such a preoccupation that they prevailed in discussions on Newfoundland's potential to obtain exclusive or shared jurisdiction over a critical sector in its economy, the fishery.

The Newfoundland Fisheries Board (the "Board") had been established in 1936 to regulate the catching, curing, grading, packing, branding and exporting of fish from Newfoundland. Many of these responsibilities would fall under federal jurisdiction after union. The 1947 Newfoundland delegation was concerned that chaos would erupt in the fishery if the Board, or a similar regime, was not continued following Newfoundland's entry into Canada, as the industry went from a regulated regime to one that, at the time, was not subject to such regulation. However, two Newfoundland delegates, Joseph Smallwood and Gordon Bradley, rejected the option of providing Newfoundland with exclusive provincial jurisdiction over fisheries at a meeting with officials of the federal Department of Fisheries. A memorandum to the Assistant Secretary to the Cabinet indicates that the Newfoundland delegates rejected the option on the basis that it would "deprive Newfoundland of the assistance of the federal department of fisheries, and they did not wish to deprive Newfoundland of these services." The concept of concurrent legislative jurisdiction was rejected due to the federal government's ability to override any provincial legislation.[13] This is not raised to suggest that the federal government was prepared to agree to a constitutional provision ensuring that Newfoundland obtain exclusive jurisdiction over its fishery; however, it does illustrate that financial concerns and realities hindered even simple discussions on issues pertaining to power transfer or sharing.[14]

The Government of Canada offered its terms for accepting Newfoundland into Confederation through a 29 October 1947 letter addressed to the Governor of Newfoundland from Canadian Prime Minister William Lyon Mackenzie King.[15]

Following the delivery of the Government of Canada's offer and two bitterly contested referenda, Confederation with Canada was chosen by the electorate as its preferred form of government. Subsequently, a further seven person delegation was chosen to negotiate the final Terms of Union with Canada (the "1948 Newfoundland delegation"). Additional conditions were negotiated with respect to transitional issues and more favourable terms were negotiated on financial matters. Except with respect to Term 22 concerning Newfoundland Fisheries laws and Term 46 respecting the sale and manufacture of Oleo margarine, there were not any provisions negotiated whereby Newfoundland could influence the application of federal policies to the new province. However, the Government of Canada's agreement in Term 22 to entrench Newfoundland Fisheries laws for a minimum five year period should not be recognized as a constitutional precedent favouring provincial influence on federal policies. Rather, it was simply a transitional provision designed to assist the industry's adjustment to the application of federal fisheries policies. Therefore, except in limited circumstances, the Terms of Union do not provide for provincial influence over matters within federal jurisdiction. Furthermore, again with limited exceptions, the Terms of Union do not have any role in protecting individual or commercial rights or interests.[16]

Criticisms of the Terms of Union at the time did not address the lack of power sharing arrangements with the Government of Canada. A member of the 1948 Newfoundland delegation, Chesley A. Crosbie, refused to sign the Terms of Union. In his 9 February 1949 Minority Report to the Commission of Government, Mr. Crosbie criticized the financial provisions contained in the Terms of Union, particularly Term 24 requiring Newfoundland to use a portion of the surplus accumulated by the Commission of Government to satisfy post-Confederation current account expenditures. Other than a passing reference on the need to protect Newfoundland's secondary industries during a period of readjustment to Confederation, there was no mention of Newfoundland's inability to influence federal initiatives that would affect Newfoundland.[17] Mr. Crosbie's limited critique of the Terms of Union supports the view that the 1948 Newfoundland delegation's primary role was to negotiate Newfoundland's adjustment to Canada's existing political and economic framework. If the intent had been to include more complex constitutional arrangements, then their absence from the finished document should have provoked further criticism from Mr. Crosbie.

Comparison with Other Provinces

The *Constitution Act, 1867* was amended in 1949 by the Parliament of the United Kingdom to incorporate the Terms of Union within the Canadian Constitution.[18] The reliance on an imperial statute to achieve this result is unique in Canadian constitutional history. British Columbia and Prince Edward Island earlier had negotiated their entry into Canada. The Terms of Union negotiated with Prince Edward Island and British Columbia were incorporated into the *Constitution Act, 1867* by Order-in-Council of the British Privy Council. Pursuant to Section 146 of the *Constitution Act, 1867*, the Parliament of Canada and the Legislature of the province seeking to join Canada had to make a joint address to the British Privy Council requesting the admission of that province into Canada. The process had to be modified in Newfoundland's case because it did not have a legislature in 1949. Nevertheless, the Terms of Union for each of British Columbia, Prince Edward Island and Newfoundland is a constitutional document.[19]

Despite differences in the process used to incorporate their respective Terms of Union into the Constitution, Newfoundland, British Columbia, and Prince Edward Island share the unique history of negotiating the terms under which they joined Canada. Nova Scotia, New Brunswick, Ontario and Quebec formed Canada under the terms of the original *Constitution Act, 1867*. Each of Manitoba, Saskatchewan and Alberta was established by statutes passed by the Canadian Parliament, and each of these respective statutes forms part of the Canadian constitution. Provisions contained in the legislation mirror many seen in the Terms of Union that have been negotiated with the Government of Canada by Newfoundland, British Columbia and Prince Edward Island. The statutes provide the subsidies referenced in each set of Terms of Union to finance the operation of provincial governments and legislatures. The statutes also provide financial assistance beyond that provided to British Columbia and later to Newfoundland. The further financial assistance reflected their pre-provincial status as territories that had formed part of Canada. As federally administered territories, ownership of Crown Land lay with the federal Crown. Following the creation of provinces from these federally-administered lands, Crown Land remained under federal control. The provinces therefore would not be able to sell or develop Crown Land to generate revenues, and so additional federal subsidies were provided to compensate these provinces for their inability to raise revenues in this manner. The precedent for this form of additional assistance may have arisen from the Prince Edward Island Terms of Union. Prince Edward Island also did not hold any Crown Lands upon entering Confederation. In its case, the Government of Canada agreed to advance Prince Edward Island money which could be used by the province to purchase privately-held land.

Unlike the Terms of Union for Prince Edward Island, British Columbia and Newfoundland, the statutes establishing Manitoba, Saskatchewan and Alberta do not have any particular clauses addressing the maintenance or operation of specific public services. The absence of such clauses might be explained by the history leading to the formation of these provinces as against the entry of British Columbia, Prince Edward Island and Newfoundland into Canada. The Prairie provinces were formed by the Government of Canada's constitutional power, established by the *Constitution Act, 1871*, to establish new provinces from any territory forming part of Canada. Through the Rupert's Land and North-Western Territory Order of 23 June 1870, the Governor in Council of the United Kingdom ordered the admission of these territories into Canada. Manitoba, Saskatchewan and Alberta were formed from portions of these territories. As a result, there would have been no opportunity for these statutorily-created provinces to negotiate a federal response to special needs and concerns. These provinces were formed under the constitutional model, including the division of powers, established by the *Constitution Act, 1867*. The manner in which British Columbia, Prince Edward Island and Newfoundland entered Confederation provided these provinces with an opportunity not available to the Prairie provinces to obtain federal financial assistance and influence federal policies to address their unique problems and concerns.

A review of the terms governing the entry of each of Prince Edward Island and British Columbia into the country reveals that neither is a complicated or long document. Like Newfoundland's Terms of Union and the legislation establishing each of Manitoba, Saskatchewan and Alberta, each set of Terms address representation in the Canadian Parliament and the establishment of a provincial executive and legislature. The Prince Edward Island Terms of Union addresses Canada's assumption of the Island's debt, the provision of grants and loans from Canada to the Island, Canada's assumption of various public services, including the requirement that Canada establish and maintain an "Efficient Steam Service for the conveyance of mails and passengers" between the Island and mainland Canada. The Terms of Union for British Columbia embody many of the same provisions as those embodied in the Prince Edward Island Terms of Union. There are, however, some provisions that are unique to each of those Terms.

The Government of Canada committed to the construction of a railway to connect the British Columbia coast to the railway system that was operating within what was then Canada. British Columbia was entitled to maintain its imposition of customs, tariff and excise duties until such time as the railway was completed. British Columbia was also able to secure a commitment from the Government of Canada to continue a "policy as liberal as that pursued by the British Columbia Government" with respect to its aboriginal peoples and to provide such tracts of land as appropriate for that purpose. Where there was disagreement between the two Governments respecting the quantity of such tracts of land to be so granted, the dispute would be referred to an independent arbitrator (*i.e.*, the British Secretary of State for the Colonies).

The British Columbia Terms of Union temper the argument that section 146 of the *Constitution Act, 1867*, prevented a voluntary derogation by the Government of Canada of its powers under section 91. While the imposition of tariffs by British Columbia fell within the Government of Canada's power to regulate Trade and Commerce under section 91(2), the British Columbia Terms of Union permitted, albeit on a temporary basis, the province to raise revenues through that means. Furthermore, while under section 91(24), the Government of Canada had exclusive constitutional authority to deal with "Indians, and Lands reserved for the Indians," the British Columbia Terms of Union provided a mechanism to ensure the Government of Canada, following union, did not adopt policies that the British Columbia Government felt would diminish that which had been in place prior to union. More so than the Prince Edward Island Terms of Union, the British Columbia Terms of Union provided Newfoundland with a precedent to exert influence on policy within areas that, following union with Canada, would fall under federal jurisdiction. Subject to the arguable exceptions of Term 22 (Newfoundland Fisheries Laws) and Term 46 (Oleo margarine), no similar initiatives are contained in Newfoundland's Terms of Union.

Like Prince Edward Island and British Columbia, Newfoundland's Terms of Union primarily established conditions under which the new province would operate within the legal and political framework of Confederation. They set financial arrangements and subsidies comparable to those received by the other provinces at the time of Newfoundland's union, addressed services that would be taken over by the Government of Canada, and addressed benefits for civil servants (and retirees) who became (or would have been under an earlier union) federal employees.

There were issues addressed within Newfoundland's Terms of Union that were not relevant to British Columbia or Prince Edward Island at the time of their respective unions with Canada. The Newfoundland Terms of Union addressed the payment of income tax as of the year of union (which had not been in place at the time of British Columbia or Prince Edward Island's entry into Confederation) and the provision of Unemployment Insurance benefits as of union (which was not a federal program at the time of British Columbia's or Prince Edward Island's entry into Confederation). In each case, however, the Terms of Union arguably were primarily designed to assist the incoming province to adjust politically and financially to the new status of a Canadian province.

In Newfoundland's case, many terms designed to address political issues upon its entry into Confederation are of continuing importance: Newfoundland's representation in the Canadian Parliament is guaranteed to be six senators and seven members of the House of Commons by Term 4. Its territory is defined by Term 2 thereby confirming the 1927 ruling of the Judicial Committee of the Privy Council establishing the Labrador boundary. Others were clearly designed solely to ease Newfoundland's transition to being Canada's tenth province. Terms 20 through 22 addressed uncertainties regarding the status of decisions taken with respect to patents, trademarks and fisheries prior to Confederation. Terms 18 and 19 addressed uncertainties governing interim supply for provincial government operations. Even financial terms were designed to assist Newfoundland to raise monies to finance provincial services after Confederation. Term 28 specifically addressed "transitional grants" designed to assist Newfoundland to become a financially self-sustaining province. Although Term 28's language will be explored further through a review of Term 29, its reference to "transitional grants" implies that a less-than-permanent obligation was meant to be imposed on the Government of Canada.

Other terms addressing education (Term 17), the continuation of Newfoundland's Fisheries Laws (Term 22), financial arrangements (Terms 23 – 27, Term 29), Canada's assumption of various services (Term 31), Canada's maintenance of a North Sydney – Port-aux-Basques ferry service (Terms 32(1)), the regulation of railway rates (Terms 32(2) and 32(3)), the ownership of Crown lands and of mines and minerals (Term 37), and protection granted to the manufacture and sale of Oleo margarine (Term 46) had longer term implications. Even so, events succeeding Confederation, the wording used in these Terms, and judicial decisions regarding the interpretation of constitutional documents have further diminished the relevance of Newfoundland's Terms of Union since Confederation. Of these factors, the most significant may be the development of judicial precedents governing the interpretation of constitutional documents, including the Terms of Union.

Interpreting the Terms of Union

There are principles in Canadian case law fundamental to the legal interpretation of constitutional documents. Perhaps the most significant case in Canadian constitutional law is the 1929 decision of the Judicial Committee of the British Privy Council (the "Privy Council") in *Edwards v. A.G.-Can.*[20]

In 1928, the Supreme Court of Canada was asked to determine whether the words "qualified persons" contained in section 24 of the *Constitution Act, 1867,* permitted the Governor General to appoint women to the Canadian Senate. Since women could not hold public office at the time that the *Constitution Act, 1867*, was passed, the Court held that its drafters could not have intended women to serve in the Canadian Senate.

The Privy Council was then the final appellate Court for any legal question arising within Canada. In its decision, the Privy Council agreed that the Parliament of the United Kingdom would not have intended, when using the word "qualified" in section 24 of the *Constitution Act, 1867,* to make women eligible for appointment to the Canadian Senate. The Privy Council nevertheless decided that the appointment of women to the Senate was constitutionally permissible. In finding that constitutional statutes passed by the Parliament of the United Kingdom, such as the *Constitution Act, 1867,* held a special status against other statutes, Lord Sankey of the Privy Council wrote:

> "The *British North America Act* **planted in Canada a living tree capable of growth and expansion within its natural limits.** The object of the Act was to grant a constitution to Canada.
>
> > 'Like all written constitutions it has been subject to development through usage and convention'.
>
> The Lordships do not conceive it to be the duty of this Board – it is certainly not their desire – to **cut down the provisions of the Act by a narrow and technical construction, but rather to give it a large and liberal interpretation** so that the Dominion to a great extent, but within certain fixed limits, may be mistress in her own house, as the provinces to a great extent but within certain fixed limits, are mistresses in theirs …the Lordships are concerned with the interpretation of an Imperial Act but with an Imperial Act which creates a constitution for a country … **the question is not what may be supposed to be intended, but what has been said**."[21]
>
> (emphasis added to highlight the sections frequently quoted in subsequent decisions).

In its decision, the Privy Council introduced the "living tree" doctrine to govern the interpretation of the Canadian Constitution. The doctrine's basic principle is that a constitution should not be interpreted like a contract or statute. Furthermore, the interpretation of general wording is not to be based solely on the intent of those who developed its provisions. Such wording is to be interpreted broadly and liberally and in a manner that enables the constitution to respond to changes in society and values. This method of constitutional interpretation, now accepted as a basic tenet of constitutional law, is sometimes referred to as "progressive interpretation". Constitutional scholar Peter Hogg has commented on the principle of "progressive interpretation".

> "The doctrine of progressive interpretation is one of the means by which the *Constitution Act, 1867* has been able to adapt to the changes in Canadian society. What this doctrine stipulates is that the general language used to describe the class of subjects (or heads of power) is not frozen in the same sense in which it would have been understood in 1867 .... [T]he words of the Act are to be given a "progressive interpretation", so that they are continuing to adapt new conditions and new ideas."[22]

Professor Hogg has further elaborated upon the benefits underlying the application of such a doctrine of interpretation:

> "The idea underlying the doctrine of progressive interpretation is that the Constitution Act, 1867, although undeniably a statute, is not a statute like any other: It is a "constituent" or "organic" statute, which has to provide the basis for the entire government of the nation over a long period of time. An inflexible interpretation, rooted in the past, would only serve to withhold necessary powers from the parliament or legislatures. It must be remembered too that the *Constitution Act, 1867* like other federal constitutions, differs from an ordinary statute in that it cannot be easily amended when it becomes out of date, so that its adaptation to changing conditions must fall to a large extent upon the Courts."[23]

The "living tree" or "progressive interpretation" doctrine provides Canadian Courts with a vital role in the interpretation of constitutional language. The judiciary is free from being confined to a determination of the intentions of the drafters of the constitution and being bound to those intentions. The judiciary has been given flexibility and discretion in shaping constitutional rights and obligations. Historical meaning or precedent at the time of the constitution's drafting is of limited importance and any inferences drawn from this information may be given little weight. Furthermore, an attempt to 'freeze' the meaning of general wording within the constitution will, more often than not, be improper.

Canadian Courts, including the Supreme Court of Canada, continue to endorse this method of constitutional interpretation:

> "It has been stated repeatedly on high authority that a constitutional document must remain flexible and elastic, in the words of Lord Sankey in *Edwards v. The Attorney General of Canada* ... a living tree capable of growth and expansion within its natural limits. There is nothing static or frozen, narrow or technical, about the Constitution of Canada."[24]

Besides applying the concept of a "living tree" or "progressive interpretation" to the originally-formulated provisions of the constitution, Canadian Courts have recognized that it also applies to its amendments, including to those provisions guaranteeing individual rights and freedoms under the *Canadian Charter of Rights and Freedoms.*[25] The "progressive interpretation" doctrine also has been recognized as being applicable to the interpretation of the Terms of Union established for Prince Edward Island[26] and British Columbia.[27]

When Newfoundland joined Canada in 1949, the "progressive interpretation" doctrine had become an integral part of Canadian constitutional law. Despite this, the Terms of Union, when reviewed by Courts, have not been interpreted in a progressive, liberal or broad manner. Nor have the Terms of Union of Prince Edward Island or British Columbia been interpreted in such a manner. The explanation for this is simple: A review of each Terms of Union shows that each addresses specific issues. They used precise language to identify specific obligations. The "progressive interpretation" concept applies to general words in the constitution. It allows Courts to place the most favourable construction to a set of circumstances where there is some ambiguity in the constitutional language used. Constitutional documents may be written in general terms by design so that an abstract and broadly-worded document will not become obsolete with political, economic and social developments.[28] However, specific language does not invite a similar treatment; otherwise, the meaning of such specific terms could be stretched to force potentially unreasonable interpretations.

Subsequent judicial decisions also have suggested that the "progressive interpretation" doctrine was never meant to infringe on the essential provisions concerning the division of powers between the federal government and the provinces. In a decision of the Privy Council, Lord Atkin, when determining whether the federal government's power of treaty making could override areas of provincial jurisdiction, provided the following metaphor to illustrate that the "progressive interpretation" doctrine could not be employed to expand or contract powers granted under sections 91 and 92 of the *Constitution Act, 1867:*

> "While the ship of state now sails on larger ventures and into foreign waters, she still retains the watertight compartments which are an essential part of her original structure."[29]

Although the 'watertight compartment' metaphor has been criticized in its approach to the Canadian constitution's interpretation, arguably it was influential in the immediate years following Lord Atkin's decision. Its contemporaneous relevance to the interpretation of constitutional documents, including Newfoundland's Terms of Union, should not be ignored. According to Gordon A. Winter, a member of the 1948 Newfoundland delegation, the final Terms of Union had been drafted with the expectation that the clear wording of its provisions would not be challenged.[30] While the Canadian delegation did not express concern for the potential manner by which the Terms of Union might be interpreted,[31] the impact of the leading House of Lords decisions of that time would have encouraged the use of unambiguous language and rigidity in the recognition of the existing division of powers.

While the 'watertight compartment' metaphor may have fallen into disfavour, certainly Lord Sankey's affirmation that the interpretation of constitutional documents must not ignore the text's wording has not. Its relevance to the interpretation of constitutional documents continues to be recognized by the Supreme Court of Canada:

> "Although constitution terms must be capable of growth, constitution interpretation must none the less begin with the language of the constitutional law of the provision in question … regard must first be had to the language of the provision to be interpreted."[32]

The cases that have interpreted specific terms within the Newfoundland Terms of Union reflect the constraint that regard "must be had to the wording of the provision to be interpreted".

Thus, a former employee of the Government of Newfoundland, upon taking employment with the Government of Canada, could not, pursuant to Term 39 of the Terms of Union, gain any additional pension rights beyond the entitlement granted by that Term.[33] Under Term 31 of the Terms of Union, all property of the Newfoundland Railway immediately after Union became the property of Canada, regardless of whether it was used for railway purposes at the time that the federal government assumed responsibility for the service. Thus, when the provincial government granted a lease of lands forming part of a branch line abandoned by the Newfoundland Railway in 1939, the lease was declared a nullity on the basis that, pursuant to Term 31, Newfoundland no longer owned any property of the former Newfoundland Railway.[34]

In *Re Bowater's Nfld. Pulp & Paper Mills Ltd.*,[35] the Supreme Court of Canada had its first opportunity to interpret Newfoundland's Terms of Union. This case dealt with the question whether pre-Confederation statutes were repealed, abolished or altered by union with Canada. Bowater's had been exempted from certain taxes and duties under Newfoundland legislation which was in force as of the date of union. Counsel for Bowater's Newfoundland Pulp and Paper Mills, Limited ("Bowater's") argued that Term 18(3) applied to continue the exemptions. Term 18(3) provides that the Parliament of Canada may "with the consent of the Legislature of the Province of Newfoundland repeal any law in force in Newfoundland at the date of Union." Bowaters argued that so long as pre-Confederation Newfoundland legislation addressed matters that post-Confederation fell within provincial jurisdiction, it could not, even where the legislation also addressed matters that fell within federal jurisdiction, be repealed except with the consent of the provincial legislature. Bowaters argued that until Newfoundland agreed to the repeal of the favourable exemptions enacted before union with Canada, it was immune from federal legislation eliminating those exemptions.

The Government of Canada took the position that it had the power by itself to enact laws which, in effect, could repeal pre-Confederation Newfoundland statutes, as long as such laws fell within federal jurisdiction under the *Constitution Act, 1867*. It argued that a 1949 amendment to the federal *Income Tax Act* that denied Bowater's the exemptions it enjoyed prior to Confederation was a valid exercise of its federal powers.

In separate decisions, members of the Supreme Court reviewed the potential impact of Term 18(1) and Term 18(3) on federal legislation. Term 18(1) states that all laws enforced in Newfoundland at or immediately prior to the date of Union shall continue as if the Union had not been made, "subject nevertheless to be repealed, abolished or altered by the Parliament of Canada or by the legislature of the Province of Newfoundland according to the authority of the Parliament or of the Legislature under the (*Constitution Act, 1867-1940*)...". Term 18(3) stated:

> "Notwithstanding anything in these Terms, the Parliament of Canada may with the consent of the Legislature of the Province of Newfoundland repeal any law in force in Newfoundland at the date of Union."

The Chief Justice Rinfret held that reference to "authority" in Term 18(1) referred to sections 91 and 92 of the *Constitution Act, 1867*. Specifically, the Chief Justice held that "by force of Term 18(1) the Parliament of Canada is thereby given the authority to repeal, abolish or alter any and all laws in force in Newfoundland at or immediately prior to the date of Union, which deal with subject matters in Section 91..." It was his position that amendments to the *Income Tax Act,* passed by the Parliament of Canada within its legislative jurisdiction, constituted a valid repeal of Newfoundland's laws that had granted deductions, exemptions, immunities and privileges to Bowater's.

In a separate but concurring judgment, Justice Estey rejected Bowater's argument that Term 18(3) required the consent of Newfoundland before Canada could repeal the exemptions granted to Bowaters prior to Confederation with Canada. In doing so, Justice Estey relied on the fact that Term 18(1) specifically indicated that the *BNA Act* (*i.e., Constitution Act, 1867*) would apply to Newfoundland except insofar as varied by the Terms of Union. The reference in Term 18(1) to section 91 of the *BNA Act* indicated that Parliament was within its jurisdiction to repeal the Newfoundland law. He rejected Bowater's argument regarding Term 18(3). He held that any requirement to obtain Newfoundland's consent to the repeal of its pre-Confederation statutes wherever they dealt with matters of mixed federal and provincial jurisdiction should have been reflected through more specific language in Term 18(3).

In another concurring decision, Justice Locke noted that prior to Confederation, Newfoundland was a unitary state in which the property and revenues of the Dominion were vested in the sovereign. He stated that since Union, the "powers, executive and legislative, and the right to dispose of the said revenues were distributed between the new Province and Canada in the manner defined by sections 91 and 92 of the *British North America Act*, subject, however, to the terms of the amendment of 1949." He held, however, that Parliament had not tried to repeal the pre-Confederation statutes in question in their entirety, but merely had amended the law in respect to matters within the jurisdiction of the Canadian Parliament. The legislation therefore was consistent with Term 18(1) and did not offend Term 18(3).

The Bowater's decision revealed the Supreme Court's reluctance to diminish federal powers through a broad and liberal interpretation of provisions contained in a province's Terms of Union. This approach has not been confined to the interpretation of Newfoundland's Terms of Union.

The Supreme Court of Canada has adopted a consistent approach in interpreting the British Columbia Terms of Union.

In 1994, the Supreme Court was asked to determine whether the federal government could discontinue passenger services on two sections of the British Columbia railway that had been declared uneconomical. Opposition to the abandonment of the rail lines relied on Term 11 of the British Columbia Terms of Union. Term 11 stated:

> The Government of the Dominion undertake to secure the commencement simultaneously, within two years from the date of the Union, of the construction of a railway from the Pacific towards the Rocky Mountains, and from such point as may be selected, east of the Rocky Mountains, towards the Pacific, to connect the seaboard of British Columbia with the railway system of Canada; and further, to secure the completion of such railway within ten years from the date of the Union.

After confirming that regard must first be had for the language of the provision to be interpreted, the Supreme Court held that the wording of Term 11 did not contain any reference to the operation of the railways, perpetual or otherwise. Term 11 provided for the railway's construction, not its operation. Accordingly the Court held that the service could be discontinued.[36]

Importantly, the Court in the B.C. railway case also made a further statement that brought into question the extent to which the "progressive interpretation" could be applied to the terms under which a province joined Canada. While choosing not to decide whether the "progressive interpretation" doctrine applied to such terms, the Court noted that such terms are unique constitutional documents in that they were drafted to address specific problems and concerns rather than for the broad purposes of forming a government. By characterizing Terms of Union as documents meant to address specific problems and concerns, the Supreme Court of Canada has diminished the likelihood that they can be adapted to changing political, social and economic climates. Adaptation is integral to a constitutional document that is designed to survive changing conditions and ideas. The "progressive interpretation" doctrine is more difficult to apply to specific language that attempts to resolve a particular problem or concern. Regardless of whether the proposed resolution contained in a given term succeeds in addressing the problem or concern, the Courts cannot go beyond the specific language of the document to identify alternate means to resolve them.

Using the Terms of Union as a means to address or resolve specific problems provides the Courts with a basis for distinguishing such constitutional provisions from those protecting individual rights, as expressed in the *Canadian Charter of Rights and Freedoms*, or the validity of laws passed pursuant to the governing powers that are contained in sections 91 and 92 of the *Constitution Act, 1867*. This distinction can be seen in the *Societé de Acadian v. Association of Parents for Fairness in Education*.[37] In that case, Beetz J. of the Supreme Court of Canada stated:

> "Unlike language rights which are based on political compromise, legal rights tend to be seminal in nature because they are rooted in principle. Some of them, such as the one expressed in s. 7 of the Charter, are so broad as to call for frequent judicial determination.
>
> Language rights, on the other hand, although some of them have been enlarged and incorporated into the Charter, remain none the less founded on political compromise.
>
> This essential difference between the two types of rights dictates a distinct judicial approach with respect to each. More particularly, the Courts should pause before they decide to act as instruments of change with respect to language rights. This is not to say that language rights provisions are cast in stone and should remain immune altogether from judicial interpretation. But, in my opinion, the Court should approach them with more restraint than they would in construing legal rights."[38]

The Supreme Court of Canada later reviewed the ruling of Mr. Justice Beetz in Ref: *Re Ontario Education Act*.[39] In considering the interpretation of s. 93 of the *Constitution Act, 1867*, the Supreme Court's majority decision interpreted the statements of Justice Beetz as not ruling out a more expansive approach being taken in certain circumstances:

> "While due regard must be paid not to give a provision which reflects a political compromise too wide an interpretation, it must still be open to the Court to breathe life into a compromise that is clearly expressed."[40]

Regardless of the Supreme Court's apparent willingness to "breathe life" into political compromises, the two decisions clearly differentiate between approaches in interpreting constitutional provisions based on their characterization. Provisions of the constitution reflecting a political compromise, generally speaking, will be given a more restrictive interpretation than other provisions regarding individual and public rights. While there can be a purposive approach in interpreting those clauses within a province's Terms of Union that reflects political compromise, judicial caution will be exercised in the use of the "progressive interpretation" doctrine to expand their influence to situations not contemplated by the wording.

Viewing the Terms of Union as unique constitutional documents designed to address specific problems and concerns discourages any interpretation that favours extending provincial influence in any matter falling within section 91 of the *Constitution Act, 1867*. In the *Bowater's* decision, Chief Justice Rinfret relied on Term 3 of the Terms of Union to discourage such an interpretation. Term 3 states:

> "The *British North America Acts*, 1867-1946, should apply to the Province of Newfoundland in the same way and to the like extent as they apply to the provinces heretofore comprised in Canada, as if the Province of Newfoundland had been one of the provinces originally united, except insofar as varied by these Terms and accepts such provisions as are in terms made or by reasonable intendment may be held to be especially applicable only to affect one or more and not all of the provinces originally united."

Term 3 contemplates that the Terms of Union must contain express language impacting federal jurisdiction before there can be a derogation of powers over matters enumerated in section 91 of the *Constitution Act, 1867*. The *Bowater's* case confirmed this interpretation. The Government of Canada retained sole jurisdiction over those matters enumerated in section 91 where there was not any constraint imposed by the Terms of Union. While this is clear conceptually, it has not always resulted in the Government of Canada exercising its jurisdiction, particularly with respect to aboriginal peoples living within the province.

An example can be seen in the Government of Canada's historical hesitancy to assert its jurisdiction over Newfoundland aboriginal peoples. Upon Newfoundland entering Confederation, aboriginal people living within the province (the Mi'Kmaq, Inuit and Innu) became subject to Canada's legislative and executive powers under section 91(24) of the *Constitution Act, 1867*, relating to "Indians, and Lands reserved for Indians."[41] The Terms of Union did not address jurisdictional responsibility for the extension of federal programs and services to Newfoundland's aboriginal peoples following Confederation. Following Confederation, federal programs and services could have been directed to Newfoundland's aboriginal people through the *Indian Act*. The ability to extend *Indian Act* benefits was dependent on the Governor-in-Council recognizing "bands" of aboriginal peoples for the purpose of the legislation. Recognition would provide "band" members with benefits under that legislation. While the *Indian Act* was in place at the time Newfoundland joined Canada, there was no constitutional obligation on the Government of Canada to recognize "bands" within the province so as to extend the *Indian Act* to its aboriginal people. The Terms of Union did not constrain the exercise of federal jurisdiction under section 91(24). Neither did it impose any obligation on the Government of Canada to extend benefits and services to Newfoundland's aboriginal peoples that were extended to other aboriginal people in the country.

The absence of a specific provision within the Terms of Union extending the *Indian Act* to Newfoundland's aboriginal people left the decision to do so at the discretion of the federal Governor-in-Council. No such decision was made. Instead, commencing in 1954, federal-provincial "Native Peoples Agreements" were negotiated to provide and expand public services to Newfoundland's Innu and Inuit. The original 1954 Agreement was later renewed and expanded. In 1973, it was extended to Mi'Kmaq living in Conne River. Ultimately, in 1981, a federal-provincial agreement providing financial assistance solely to the Mi'Kmaq living in and contiguous to Conne River was signed. These Agreements have historically excluded a significant portion of Newfoundland's aboriginal people. Originally all Mi'Kmaq in the province were excluded. After 1973, Mi'Kmaq outside of Conne River continued to be excluded from these Agreements.

Until June 1984, the Government of Canada did not recognize any Indian band within Newfoundland for the purpose of registering its members under the *Indian Act*. On 28 June 1984, it recognized the Conne River (Miawpukek) Band. Negotiations continue that could see the recognition of Innu bands in Labrador. Negotiations also are underway that could see the provision of direct federal financial assistance to Mi'Kmaq residing outside Conne River.

These developments arguably reflect a recognition by the Government of Canada that, upon Confederation, it assumed legal responsibilities to provide programs and services to all of Newfoundland's aboriginal peoples. A proliferation of litigation defining the nature of the Government of Canada's responsibilities towards Canada's aboriginal peoples may have contributed to these developments. These responsibilities, such as those arising from the existence of a fiduciary relationship between the Government of Canada and Canada's aboriginal peoples, existed at the time of Newfoundland's entry into Confederation. The absence of language in the Terms of Union recognizing this federal responsibility or outlining the financial benefits to be provided to Newfoundland's aboriginal people cannot explain the failure to meet obligations that existed in 1949. The Terms of Union did not impede the Government of Canada from assuming its responsibilities in a timely fashion. Arguably, language outlining benefits to be delivered to Newfoundland's aboriginal people may have accelerated the delivery of federal programs or the timing of decisions relating to band recognition for *Indian Act* purposes. Had the Government of Canada readily accepted its responsibilities, however, such language should not have been necessary.

In retrospect, Newfoundland's aboriginal people would have benefited from language within the Terms of Union defining the Government of Canada's obligations towards them. The British Columbia Terms of Union existed as a precedent for the embodiment of such language. Even a general statement that Newfoundland's aboriginal peoples should receive federal benefits equivalent to those received by other aboriginal peoples within Canada might have been beneficial. The absence of such language restricted the ability of Newfoundland's aboriginal people to be treated on an equal footing with other aboriginal groups throughout the country. Where there is an absence of language creating or clarifying constitutional obligations, the Terms of Union do not provide any mechanism whereby the Government of Canada can be compelled to address matters clearly falling within its section 91 powers.

The Terms of Union – The Impact of Specific Provisions

A review of various terms within the Terms of Union reveals that many have no or limited influence on the current political, economic and social affairs of the province. The review that follows explores a number of specific terms to determine whether they continue to play a meaningful role.

Fisheries Laws (Term 22)

Term 22 provided for a series of Newfoundland statutes, pertaining to the regulation of the Newfoundland fishery, to operate for a period of five years from the date of Union and thereafter until the Parliament of Canada otherwise provided. It also permitted the Newfoundland Fisheries Board, established pursuant to 1936 legislation of the Commission of Government, to continue administering these laws within this same time frame. While initially this may appear to be a form of constitutional cooperation between the Government of Canada and the Province with respect to the management of a key provincial industry, the five year limit imposed on Term 22's operation and a unilateral ability within the Parliament of Canada to declare whether the laws would be continued following the five year limit suggest that federal altruism was not the motivation for the provision.

The Newfoundland fisheries laws provided for the regulation of an industry that, under Canadian law at that time, was unregulated by comparison. According to Gordon A. Winter, both the 1948 Newfoundland delegation and the Canadian Government were concerned that Confederation would result in a *de facto* deregulation of Newfoundland's fishery. Sudden deregulation potentially would cause industrial and market chaos, and therefore financial uncertainty, within Newfoundland's key industry. Term 22 was therefore developed as a transitional constitutional provision designed to either ease the Newfoundland fishery into the Canadian de-regulated regime or to allow Canadian legislation to fill that field.[42]

After 1954, the Government of Canada faced no constitutional impediment to amend or repeal the Newfoundland fisheries laws. The first legislation repealing any of the statutes referenced in Term 22 was passed in 1959.[43] All remaining Newfoundland fisheries laws were repealed in 1960.[44] Term 22 contemplated that such laws could operate after 1954 but solely at the discretion of the federal government. With the 1960 legislation, that discretion was exercised to bring Term 22's influence on the regulation of the Newfoundland fishery to an end.

Financial Arrangements (Terms 23 – 29)

Newfoundland's financial ability to sustain provincial services and programs upon entering Confederation occupied much of the discussions between the Government of Canada and the two Newfoundland delegations negotiating the Terms of Union. Terms 23 through 29 of the Terms of Union were the fruit of that labour.

Term 23 dealt with Canada's assumption of Newfoundland's debt upon it entering Confederation. Term 24 dealt with the manner in which Newfoundland's surplus existing at the time of its union with Canada would be applied against future provincial deficits and economic development initiatives. Term 25 allowed the Province of Newfoundland to retain interest payments it received on any loans made by it prior to union. Term 26 set out subsidies Canada would pay to the Province of Newfoundland upon its entry into Confederation. Term 27 provided for the province's potential entry into a tax agreement similar to offers made to other provinces.

Of these five terms, only Term 26 can be interpreted as establishing an ongoing obligation upon the Government of Canada to provide financial support to Newfoundland. The obligation in Term 26(a) mirrored that assigned to the Government of Canada in section 118 of the *Constitution Act, 1867* (since repealed), the Terms of Union with British Columbia and Prince Edward Island, and provisions contained in the legislation establishing Manitoba, Alberta, and Saskatchewan. Term 26(a) provided an annual subsidy of 80 cents per capita and a further $180,000 to support the provincial government and legislature. Term 26(b) provided a $1.1 million annual subsidy payable for purposes akin to those under legislation providing subsidies to the Maritime provinces, and to recognize Newfoundland's special problems caused by geography and a sparse and scattered population. While these obligations were subsumed into a tax agreement entered into under Term 27(5), this only changed the mode by which the obligation was to be met. It does not necessarily relieve the Government of Canada of the obligation to ensure that Newfoundland receives the benefits promised by Term 26.

Term 28 set out transitional grants which were to be paid to the Province over a 12 year period in order to "facilitate the adjustment of Newfoundland to the status of a province of Canada and the development by the Province of Newfoundland of revenue producing services." Without further elaboration, its effect was meant to be temporary. Only Term 29 could be interpreted as potentially offering Newfoundland the prospect of continued or new financial assistance initiatives beyond those stated elsewhere in the Terms of Union.

Term 29 specified that a federal Royal Commission would be appointed by the Government of Canada within eight years of the date of union to review the Province's financial position and to recommend the form and scale of additional assistance, if any, that may be required by the Province of Newfoundland to enable it to:

> ". . . continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtained generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edward Island."

In his book *I Chose Canada*, Joseph R. Smallwood stated that one of the major concerns surrounding Newfoundland's entry into Canada was the uncertainty of whether the financial assistance contained in Terms 23 through 27, other payments from the Government of Canada, and provincial government revenues would be sufficient to enable the new provincial government to carry on its responsibilities. Term 29 was intended to address that concern:

> "In Term 29, we were confident we had the solution: It provided for a full-scale review of the province's finances before the eight years were up and for recommendations about the aid that might continue to be necessary."[45]

To prepare to make its case to the federal Royal Commission, the Province of Newfoundland appointed its own Commission, chaired by Philip Lewis, a Newfoundland lawyer (the "Lewis Commission"), to determine whether further financial assistance was required, and the level of that assistance, to continue public services at the levels achieved following union. As part of its analysis, the Lewis Commission interpreted Term 29 to have the following potential impact:

> "If the inquiry establishes that to continue the public services of Newfoundland at the levels and standards which requires more burdensome taxation, having regard to capacity to pay, than that prevailing in the Maritime Provinces, the Government of Canada is committed under Term 29 to provide such additional financial assistance to Newfoundland as will enable it to continue the services without resorting to more burdensome taxation than prevails in the Maritime Provinces."[46]

The Lewis Commission's analysis did not specify the nature of the financial assistance that could be provided nor did it identify parameters beyond which financial assistance was not to be provided. It felt the federal Royal Commission could recommend such forms of financial assistance that were necessary in order to allow Newfoundland to provide public services without resorting to taxation more burdensome than that faced in the Maritime provinces.

The federal Royal Commission was established under the chair of New Brunswick Chief Justice John B. McNair (the "McNair Commission".)[47] Legal counsel appointed by the Government of Canada provided the McNair Commission with a narrow interpretation of Term 29's language. The opinion, written by Roland A. Ritchie,[48] relied on Lord Sankey's statement from the "Edwards case" that "the question is not what they may supposed to have been intended but what has been said," to conclude that Term 29 only related to the continuation of the transitional payments provided by Term 28:

> "When the seven financial Terms are read together, it is apparent that the task posed for the Commissioners appointed under Term 29 is confined to a review of the years "subsequent to the date of Union", and that its objective is to determine the amount of "additional financial assistance, if any" which Newfoundland may require to complete the period of adjustment contemplated in Term 28, and to reach a point from which it can continue into the future as a Province of Canada, the financial position of which is defined by Terms 23 to 26.
>
> It is obvious that when the Terms of Union were settled, neither of the contracting parties contemplated the creation of a perpetual special position for the Province of Newfoundland, but rather provision was made for a transitional period during which Newfoundland would have an opportunity to adjust itself to full Provincial status, after which it could stand on its own ground, side by side with the other Canadian Provinces and be treated in the

> same manner, subject to the agreed financial stipulations contained in Terms 23 to 27."[49]

The McNair Commission's recommendation suggests that it agreed with Mr. Ritchie's interpretation of Term 29. It recommended that the transitional grants, embodied in Term 28, be raised to eight million dollars to the year 1962 and that same amount be paid annually thereafter.[50] In limiting its recommendation to an adjustment of the transitional grant, an opportunity for Newfoundland to obtain other forms of financial assistance was lost. Term 29 only provided for a single federal Royal Commission. Once the McNair Commission's recommendations were made, that Term, too, ceased to be operative.

The McNair Commission's recommendation was not initially accepted in total by the Government of Canada. It announced that eight million dollars a year would be paid only to 1962.[51] Ultimately, following the Diefenbaker Government's defeat in 1963, the Pearson Government decided to extend payments indefinitely. In 1996, the provincial government negotiated a lump sum payment to relieve the federal government of its obligation until 2016.[52] The one-time payment addressed a potential shortfall in the Province's revenues over expenditures.

While the Government of Canada's commitment to make payments supposedly will be resurrected in 2016, there is no constitutional obligation that it resume the payments. There never was such an obligation. Payments since the McNair Commission report, and any others to come, have been made pursuant to government policy decisions. If the policy in 2016 is not to resume the payments, the final remnant of Term 29's relevance will disappear.

Term 31

Term 31 listed a series of services within Newfoundland that would be taken over so as to relieve the Province of the costs related to their operation. Term 31 provided:

> 31. At the date of Union, or as soon thereafter as practicable, Canada will take over the following services and will as from the date of Union relieve the Province of Newfoundland of the public costs incurred in respect of each service taken over, namely,
>
> (a) the Newfoundland Railway, including steamship and other marine services;
> (b) the Newfoundland Hotel, if requested by the Government of the Province of Newfoundland within six months from the date of Union;
> (c) postal and public-owned telecommunication services;
> (d) civil aviation, including Gander Airport;
> (e) customs and excise;
> (f) defence;
> (g) protection and encouragement of fisheries and operation of bait services;

(h) geographical, topographical, geodetic, and hydrographic surveys;

(i) lighthouses, fog alarms, buoys, beacons, and other public works and services in aid of navigation and shipping;

(j) marine hospitals, quarantine, and the care of ship-wrecked crews;

(k) the public radio broadcasting system; and

(l) other public services similar in kind to those provided at the date of Union for the people of Canada generally.

Many of these services have been discontinued, reduced, or transferred back to the Province, sometimes with monetary payments to reflect either the cost to provide infrastructure to replace the eliminated service (such as the $800 million Roads-for-Rails agreement) or to assist the Province in handling the financial obligations following its assumption of the service (the Labrador ferry). The existence of such agreements and the reduction of services such as lighthouses (referenced under Term 31(i)) suggest that, while specifically mentioned in the Terms of Union, the Government of Canada is not operating under any constitutional obligation to maintain the services.

The Supreme Court of Canada's 1994 decision regarding the Government of Canada's right to abandon the uneconomical rail lines in British Columbia supports the conclusion that, depending on wording chosen, provincial Terms of Union cannot guarantee continued federal operation of such services or federal financial support for their provision. Without language that guarantees continued operation of or support for the services listed in Term 31, their continued operation remains at the discretion of the Government of Canada.[53]

A further example can be found in a 1990 Federal Court of Appeal decision concerning the operation of the Prince Edward Island railway. That Court rejected an argument that the Prince Edward Island Terms of Union obligated the Government of Canada to maintain and operate a rail service on the Island. The Term in question read:

> "That the railways under contract and in the course of construction for the Government of the Island, shall be the property of Canada."

In reviewing the language relating to railways, the Court, again relying on Lord Sankey's *caveat* to the "progressive interpretation" doctrine in the Edwards case, found that the language did not impose such an obligation to maintain and operate a railway in perpetuity.[54]

Language in Newfoundland's Terms of Union states that Canada will "take over" the services listed in Term 31 and "relieve the Province of Newfoundland of the public costs incurred in respect of each service taken over." This would have to be read, under current principles of constitutional interpretation, as an obligation merely to assume operational costs for those services that otherwise, except for the Hotel Newfoundland, would fall under federal jurisdiction according to section 91 of the *Constitution Act, 1867*. Having regard first to the language used, there is not any wording used to connote an obligation to maintain the operation of the Term 31 services. An argument that their inclusion in Term 31 obligates continuous federal operation of or financial support for the services ignores judicial findings made on similar issues in British Columbia and Prince Edward Island.

Term 32

Term 32 addresses the operation of freight and passenger steamship service between North Sydney and Port aux Basques and the regulation of railway rates. It reads:

> 32. (1) Canada will maintain in accordance with the traffic offering a freight and passenger steamship service between North Sydney and Port aux Basques which, on completion of a motor highway between Corner Brook and Port aux Basques, will include suitable provision for the carriage of motor vehicles.
>
> (2) For the purpose of railway rate regulation the Island of Newfoundland will be included in the Maritime region of Canada, and through traffic moving between North Sydney and Port aux Basques will be treated as all-rail traffic.
>
> (3) All legislation of the Parliament of Canada providing for special rates on traffic moving within, into, or out of, the Maritime region will, as far as appropriate, be made applicable to the Island of Newfoundland.

Unlike Term 31, Term 32(1) uses the word "maintain" in respect of the ferry service to be provided, qualified only by language that the level of service shall be determined by demand. In this case, even with the *caveat* to the 'progressive interpretation" doctrine, the word "maintain" can be interpreted to impose positive obligations on the Government of Canada with respect to the service's continuous operation.

In 1976, the Federal Court of Appeal considered whether the Prince Edward Island Terms of Union obligated the Government of Canada to operate a ferry service between that province and the mainland. The term regarding the ferry service read:

> "That the Dominion Government shall assume and defray all the charges for the following services'
>
> Efficient Steam Services for the conveyance of mails and passengers to be established and maintained between the island and the mainland of the Dominion, Winter and Summer, thus placing the island on continuous communication with the Intercolonial Railway and the railway system of the Dominion."

The Federal Court of Appeal held that the term respecting the ferry service created a legal duty requiring the Government of Canada to ensure the continuous, year-round operation of a ferry service between Prince Edward Island and the mainland.[55]

Except for the fact that Newfoundland's Terms of Union provide that there be a ferry service, the Government of Canada's ability to make operational decisions remains relatively unfettered. Besides the obligation to maintain a ferry service, there is a qualification that the level of service is to be based on demand. There is arguably an obligation, therefore, that the service must address demand for its use.

There is no allowance, however, for provincial input on operational decisions. Potential enforcement of the obligation also presents problems. Any interruption or modification of service contrary to the conditions of Term 32(1) may only provide a right to seek damages. In a split 1978 decision of the Federal Court of Appeal, the Court held that where a strike interrupted ferry service to Prince Edward Island, the breach of the obligation contained in the Terms of Union conferred a right on the Province to be compensated in damages.[56] While the decision recognizes the ability of the Province to seek a remedy arising from a breach of Term 32(1), whether damages can fairly compensate it for the loss of the service, even for short durations, is questionable.

Unlike Term 32(1), Terms 32(2) and 32(3) do not impose continuing obligations with respect to railway rate regulation. In 1949, railway rate regulation was pervasive throughout Canada. Rail freight to the Island of Newfoundland had to be moved from North Sydney, Nova Scotia, to Port aux Basques by water. Once rail freight arrived in Newfoundland, additional problems arose from the fact that the railway on the Island of Newfoundland was narrow gauge, not standard gauge as it was elsewhere in Canada. Reacting to the potential cost consequences associated with these problems, Newfoundland sought the protection of Terms 32(2) and 32(3). They provided that freight rates for the Province of Newfoundland would be set from freight rates established for the Maritime region. By tying freight rates to those set for the Maritime region, Newfoundland received a buffer against higher costs associated with the geographic and technological constraints of moving freight by rail to and within Newfoundland.

Commencing in 1987, the railway industry underwent substantial deregulation. In 2001, a complaint was lodged before the Canadian Transportation Agency in respect of a freight dispute between an individual, Gordon Moffatt, and the Canadian National Railway with respect to the rates charged to transport goods and containers to Newfoundland. The grievance sought to confirm that the rates charged had to be the same as those applicable in the Maritime region of Canada. The Canadian Transportation Agency agreed with the grievance. The Federal Court of Appeal overturned that ruling.

The Federal Court of Appeal held that the Canadian Transportation Agency had no jurisdiction to review the grievance in the absence of rate regulation that had some relevance to the setting of rates in Newfoundland. The Court held that deregulation had resulted in the removal of a regulatory basis to require a railway company to maintain a Maritime rate structure. Without such a rate structure, there was no existing railway rate regulation that could be engaged pursuant to Term 32(2) to determine rates within Newfoundland. It further held that Term 32(3) would only guarantee Newfoundland access to special rates provided to the Maritime region where the Canadian Parliament had enacted legislation establishing such special rates. Where there was no such legislation, Term 32(3) would have no application. Neither Term 32(2) nor 32(3) would be relevant to the establishment of freight rates for Newfoundland so long as Parliament chose not to enact legislation establishing special railway rates to the Maritime region.

The Federal Court of Appeal also held that "progressive interpretation" doctrine could not be stretched to require a reduction of rates to reflect those charged in the Maritime region. The Court relied on the precise wording of Terms 32(2) and 32(3) to find that, without any regulatory regime governing the establishment of Maritime rates, they were inapplicable to the setting of rates charged on freight shipped to Newfoundland. In the Court's words: "The living tree doctrine cannot be stretched to animate a provision that is a practical anachronism."[57] As a result, unless a future Parliament deems it worthy to prescribe a Maritime freight rate structure, Term 32(2) and Term 32(3) will continue to have no applicability to railway rates charged to ship freight to Newfoundland.

Ownership and Management of Offshore Mineral Resources (Term 37)

In 1983 and 1984, the Newfoundland Court of Appeal and the Supreme Court of Canada respectively, on separate references from the provincial and federal governments, addressed whether the Province of Newfoundland or Canada could claim the right of ownership and management of offshore mineral resources lying on or under the continental shelf contiguous to the province's coastline. One of the issues relating to the determination of that question was whether Term 37 had any applicability. Term 37 states:

Natural Resources

> 37. All lands, mines, minerals, and royalties belonging to Newfoundland at the date of Union, and all sums then due or payable for such lands, mines, minerals, or royalties, shall belong to the Province of Newfoundland, subject to any trusts existing in respect thereof, and to any interest other than that of the Province in the same.

The Supreme Court of Canada gave short shrift to the argument that Term 37 assisted Newfoundland's argument that it had retained any rights to the Continental Shelf. The Supreme Court of Canada stated:

> "Our conclusion that Term 37 would not have assisted Newfoundland in retaining whatever pre 1949 Continental Shelf rights it might have acquired is based on different considerations.
>
> We do not attribute the same significance as did the Court of Appeal in Newfoundland to the specific inclusion of Term 37 nor to the absence of the words "in which the same are situate or arise". The Terms of Union fully dealt with property division, though much of it could be characterized as superfluous. There are certain things that could not be covered by the *Constitution Act, 1867*, such as the Gander Airport and the property of Newfoundland Broadcasting Corporation, but many other transfers in the Terms of Union had direct parallels in the *Constitution Act, 1867*, for example railways or public harbours. There seems to have been a desire to collect all the provisions relating to property division in one place against the inclusion of Term 35 and 37 in addition to Term 3.
>
> As for the words "in which the same are situate or arise" in Section 109, these are grammatically necessary because the section dealt originally with three former colonies becoming four provinces. They have no further purpose or effect."[58]

The Court then went on to find that it could not apply Term 37 to the Continental Shelf in any event. The Court held that Continental Shelf rights are not proprietary rights, but arise from assertions of external sovereignty, and therefore do not fall within the subjects addressed by the Terms of Union.

The Supreme Court briefly considered Term 7. Term 7 stated:

> The Constitution of Newfoundland as it existed immediately prior to the sixteenth day of February, 1934, is revived at the date of Union and shall, subject to these Terms and the *British North America Acts*, 1867 to 1946, continue as the Constitution of Newfoundland from and after the date of Union, until altered under the authority of the said Acts.

In this regard, the Province's argument was that if it had lost external sovereignty during Commission of Government, it nevertheless entered Canada with the same external sovereignty it had in 1934 on account of Term 7. The Supreme Court accepted that Term 7 had the effect of reviving Newfoundland's Constitution but only as it had been amended to recognize Newfoundland as a Canadian province. Consequently, even if the Continental Shelf rights existed as international law prior to Union, Newfoundland, upon becoming a Canadian province, could not assert them. Such rights only could be asserted as incidents of sovereignty and therefore only by sovereign states.

In considering Newfoundland's mineral rights outside of its internal waters, the Supreme Court of Canada gave less deference to the Terms of Union than did the Newfoundland Court Appeal. The latter gave consideration and deference to a number of the Terms of Union. The Court of Appeal started by acknowledging the effect of Term 3 which allowed for the application of the *British North America Acts* (*i.e.* the *Constitution Acts*) to Newfoundland except insofar as they were varied by the Terms of Union. Its conclusion was that due to Term 3, Newfoundland's rights with respect to natural resources could differ from those of other provinces.

The Court of Appeal also considered the potential impact of Term 37. It addressed Term 37 in light of s. 109 of the *Constitution Act* (which also addresses the matter of lands, mines, minerals and royalties). The Court applied basic principles of statutory interpretation and reasoned that if it were intended on union with Canada that Newfoundland's ownership of natural resources was to be governed by s.109, then Term 37 would be meaningless. As such, the Court held that both of these constitutional provisions could be reconciled by the acknowledgement that, in the case of Newfoundland, Term 37 operated to vary the effect of s.109. The result was that the sovereign rights to the bed and subsoil territorial waters off Newfoundland, that were vested in Newfoundland at union, remained so after Confederation under the provisions of Term 37 of the Terms of Union. Term 37 did not assist in a claim with respect to the Continental Shelf however. The Court held that since Newfoundland did not have rights to the Continental Shelf prior to Confederation, no such rights could be preserved by the operation of Term 37.[59] In this respect, the Court of Appeal decision mirrored that of the Supreme Court of Canada.

The Province and the Government of Canada appealed the Court of Appeal's decision. The subsequent Supreme Court of Canada decision on the Government of Canada's reference and the Atlantic Accord reduced the decision's significance. Consequently the appeal did not proceed. The Court of Appeal's conclusion regarding Newfoundland's ownership of resources within its pre-Confederation territorial sea therefore must be viewed warily considering that it has not been assessed by the Supreme Court of Canada. The decision is inconsistent with the legal principle that rights within a state's territorial sea accrue solely to that state through the assertion of external sovereignty over that territory. Upon Newfoundland joining Confederation, only Canada could assert sovereignty over the territorial sea. Neither natural resources within the territorial sea, nor lands underneath the sea, could belong to Newfoundland once it became a province. While Canada could assign the benefits accruing from its assertion of external sovereignty to Newfoundland, Term 37 would have to be interpreted to effect such an assignment. Yet Term 37 does not contain language describing an assignment of Canada's rights. Should there be another occasion to consider the impact of Term 37 or Newfoundland's "ownership" of the territorial sea, the Supreme Court of Canada may reach a different conclusion.

Both Courts nevertheless used a strict construction approach to diminish the meaning of Term 37. It is unlikely that there would be many provisions in the *Constitution Act, 1982*, that the Supreme Court of Canada would describe as "superfluous". These decisions reflect the futility associated with relying on the Terms of Union to assert provincial jurisdiction over matters not contemplated at the time of Newfoundland's entry into Confederation. It discourages any thought that they can be adapted to support provincial assertions of jurisdiction over matters not specifically addressed therein.

Term 17

The *Constitution Act, 1867*, gave provinces exclusive jurisdiction over education except that it protected denominational rights existing in law in 1867 and a federal role in protecting those rights. Term 17, unlike those provisions, provided constitutional guarantees to seven different religions. It read:

Education

> 17. In lieu of section ninety-three of the *British North America Act, 1867*, the following Term shall apply in respect of the Province of Newfoundland:
>
> In and for the Province of Newfoundland the Legislature shall have exclusive authority to make laws in relation to education, but the Legislature will not have authority to make laws prejudicially affecting any right or privilege with respect to denominational schools, common (amalgamated) schools, or denominational colleges, that any class or classes of persons have by law in Newfoundland at the date of Union, and out of public funds of the Province of Newfoundland provided for education,
>
> (a) all such schools shall receive their share of such funds in accordance with scales determined on a non-discriminatory basis from time to time by the Legislature for all schools

> then being conducted under authority of the Legislature; and
>
> (b) all such colleges shall receive their share of any grant from time to time voted for all colleges then being conducted under authority of the Legislature, such grant being distributed on a non-discriminatory basis.

Educational rights existing at the date of Union had been established by Newfoundland's 1927 *Education Act*. Those rights permitted denominationally-based school boards to own and operate schools, appoint and dismiss teachers, receive public funds on a non-discriminatory basis, and establish denominational colleges.[60]

While Term 17 entrenched denominational educational rights in Newfoundland as part of the Constitution of Canada, its genesis may have been political in nature. In order to assuage concerns regarding the effect of Confederation on denominational education as it existed in Newfoundland, the 1948 Newfoundland delegation insisted on its inclusion.[61] The Cabinet Committee appointed to negotiate with the Newfoundland delegation did not object. There really was no reason to do so where the provision addressed education, an area in which the province had exclusive rights to make laws under section 93 of the *Constitution Act, 1867*. There would not be any derogation of federal powers through its inclusion in the Terms of Union.

Term 17 remained a political issue into the 1980s. Newfoundland joined other provinces to question the impact that the *Charter of Rights and Freedoms* would have on constitutional provisions relating to denominational education or separate schools. The following provision was introduced to the *Constitution Act, 1982*, to protect those rights, including those derived from Term 17:

> 29. Nothing in this Chapter abrogates or derogates from any rights or privileges guaranteed by or under the Constitution of Canada in respect of denominationally separate or dissentient schools.

Term 17 was amended in 1987 to extend the rights contained therein to the Pentecostal denomination. In 1996 an attempt to balance denominational education rights against financial pressures to fund denominational schools resulted in an amendment to Term 17. Interdenominational school boards were established under a legislative regime that would require them to allocate resources to denominational and non-denominational schools. The effort failed. A Court injunction was issued to halt the allocation as it was ruled contrary to the denominational rights still protected by the revised Term 17.[62] The provincial government did not challenge the injunction but sought public support through a referendum for a further amendment to Term 17. The new Term 17, overwhelmingly supported in the referendum, read:

> 17. (1) In lieu of section ninety-three of the *Constitution Act, 1867*, this section shall apply in respect of the Province of Newfoundland.
>
> (2) In and for the Province of Newfoundland, the Legislature shall have exclusive authority to make laws in relation to

education, but shall provide for courses in religion that are not specific to a religious denomination.

(3) Religious observances shall be permitted in a school where requested by parents.

The amendment removed the remnants of all rights established by the Newfoundland *Education Act of 1927*, and protected by the original Term 17. While providing for non-denominational religious studies as part of the curriculum of a publicly funded and operated system, Term 17 no longer has the same influence on Newfoundland society and educational budgets that it once had. Changing values led to the elimination of denominational rights. Under the last amendment to Term 17, its influence on Newfoundland society came to an end.

Term 46

Term 46 is a unique provision in that it protected a local industry against the impact of federal policy.

Federal legislation at the time of Newfoundland's entry into Confederation regulated the manufacture and sale of margarine. By limiting competition with the sale of butter, the legislation promoted a federal policy to support Canada's dairy industry. Applying that policy to Newfoundland had potential consequences. The first was that the cost of butter exceeded the cost of margarine. The 1948 Newfoundland delegation was concerned that the public not associate Confederation with an increase in the cost of living. The second was that a lack of serviceable roads made transportation of commodities difficult, particularly in winter when foodstuffs may have to be stored for the season. Margarine, not only being cheaper, would not spoil as readily. These concerns resulted in Newfoundland's margarine industry being protected by Term 46.[63]

While limited to a single industry, Term 46 established a precedent for the protection of local industry against the impact of federal policies and the vagaries associated with their change. With this precedent and the concerns addressed through Term 22, a similar approach could have been incorporated to protect the fishery from federal initiatives that would have been potentially harmful to the industry. Undoubtedly federal concerns that Newfoundland not obtain a special status or influence with respect to the application of federal policy, particularly on an industry key to another province (*i.e.*, Nova Scotia), would have made such a provision difficult, if not impossible, to obtain.

With changes to federal policies regarding the sale and manufacture of margarine, the need for Term 46 has passed. It stands as a testament, however, to the potential that existed to protect local industries against the impact of Confederation.

Conclusion

In retrospect, the Terms of Union have not had a durable impact on economic development within Newfoundland. Term 17 had a greater impact on Newfoundland society but with its most recent amendment, its influence, too, has declined.

The Terms of Union established the political and constitutional framework under which Newfoundland became a Canadian province. This was their primary purpose. Except in the limited circumstances of Term 17, Term 22 and Term 46, they did not address individual rights or provide mechanisms to protect or enhance the development of local industries. Once Newfoundland's transition from a suspended self-governing Dominion to a province was achieved, legal principles governing the Terms' interpretation limited the ability to adapt them to changing economic and social conditions. As an agent for economic development, the Terms of Union, for the most part, became irrelevant once the McNair Commission, appointed pursuant to Term 29, had reported.

The "progressive interpretation" doctrine of constitutional interpretation was well-known in 1947 and 1948 when the two Newfoundland delegations went to Ottawa to first receive and then negotiate the Terms of Union. Despite this, directions specifying that the Terms of Union should be interpreted in a broad and liberal manner are not contained in the document. Neither is general language used to assert Newfoundland's right to challenge the application of federal policies as there was in the British Columbia Terms of Union regarding the application of federal policies to Indians and Indian lands. Neither is there language used, as in Term 32, to ensure continued provision of various public services within the province. The absence of such language supports the contention that the Terms of Union were intended to have limited long-term relevance and utility.

Whether broader language could have been achieved so as to give Newfoundland greater influence in policy decisions affecting its economy and society is a matter of conjecture. The political concerns of establishing a special status for Newfoundland, with powers to have input on matters that would normally fall within the federal sphere, would have been as difficult to achieve in 1948 as it would be now. The potential creation of distinct rights for certain provinces to influence federal policy, even on specific areas, arguably led to the rejection of the Meech Lake and Charlottetown Accords.

On matters solely affecting the province, the ability to amend or renegotiate the Terms of Union exists without the need to seek the consent of other provinces. Identifying areas in which this can be done is difficult. Any initiative designed to give one province influence over matters falling within federal constitutional jurisdiction is likely to be shown to have a potential direct or indirect political, economic and/or social impact on another province. Without agreement to revise them, many of the terms within the Terms of Union will remain effectively "spent" in respect of their constitutional relevance. Representation within Parliament, the definition of its territory, and the provision of ferry services to the mainland stand as exceptions. Any agreement to revise the Terms of Union may be difficult to achieve. An agreement, however, provides the only means to develop Terms that are relevant to the resolution of current issues facing Newfoundland and Labrador.

Endnotes

[1] Pursuant to a constitutional amendment, the province's proper name is the Province of Newfoundland and Labrador, at the time of the negotiation of the Terms of Union, all references were to Newfoundland. For ease of reference only, this paper shall use "Newfoundland" to describe pre-Confederation negotiations with Canada on the Terms of Union and the post-Confederation effects of those Terms.

[2] *British North America Act*, 1949 (U.K.), [since renamed: *Newfoundland Act*, R.S.C. 1970, Appendix II, No. 30].

[3] D. Mackenzie, "The Terms of Union in Historical Perspective." (Fall 1998) 14: 2 Newfoundland Studies 220 at 220.

[4] Newfoundland "abdicated self-government" according to J. E. Fitzgerald, "The Confederation of Newfoundland with Canada, 1946-1949." Unpublished MA Thesis, Memorial University, 1992.

[5] A statement by the Prime Minister of Great Britain, contained in a 14 December 1945 dispatch from Vincent Massey, High Commissioner of Great Britain to the Secretary of State for External Affairs, *Documents and Relations between Canada and Newfoundland,* Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 198.

[6] J. R. Smallwood, *I Chose Canada – The Memoirs of the Honourable Joseph R. "Joey" Smallwood, (*Toronto: MacMillan Company, 1973*)* at 225-232, for J. R. Smallwood's account of the decision to run as a Confederate in Bonavista Centre.

[7] The Resolution is contained in a 20 March 1947 dispatch from the Government of Newfoundland to High Commissioner in Newfoundland, *Documents and Relations between Canada and Newfoundland,* Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 413.

[8] Report of Newfoundland Royal commission for the Preparation of the Case of the Government of Newfoundland for the Revision of the Financial Terms of Union, May 1957, Part II, Section I, at 1.

[9] 08 September 1947 telegram from Members of the National Convention of Newfoundland, *Documents and Relations between Canada and Newfoundland*, Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 198.

[10] Motion of Malcolm Hollett is contained in a 27 February 1947 telegram from the Canadian High Commissioner in Newfoundland to the Secretary of State for External Affairs, *Documents and Relations between Canada and Newfoundland*, Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 399-400.

[11] The 1947 Newfoundland delegation was accused by anti-confederate supporters as having engaged in negotiations in developing Canada's offer for Terms of Union, a circumstance seen to have been beyond the delegation's mandate.

[12] 25 November 1946 memorandum by Executive Assistant to the Governors, Bank of Canada, *Documents and Relations between Canada and Newfoundland,* Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 343.

[13] 08 September 1947 memorandum from Second Political Division to Assistant Secretary to the Cabinet, *Documents and Relations between Canada and Newfoundland*, Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 628-629.

[14] Gordon A. Winter, a member of the 1948 Newfoundland delegation, stated in a 2 January 2003 private interview that he had raised the potential of Newfoundland obtaining a right to be consulted in respect of fishery-related matters. The suggestion found little enthusiasm amongst the other members of the 1948 Newfoundland delegation whose focus was on obtaining constitutional entrenchment for federal programs and spending.

[15] 29 October 1947 letter from W.L. Mackenzie King to the Governor of Newfoundland, Documents and Relations between Canada and Newfoundland, Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 682-714.

[16] The exceptions are Term 17 (denominational education rights) and Term 46 (relating to the manufacture and sale of Oleo margarine). The Government of Canada agreed to embody these provisions into the Terms of Union on the basis of arguments from the Newfoundland delegation that their embodiment was necessary to placate various concerns in the province of Newfoundland on the availability of denominational education and the low cost of substitute butter: 2 January 2003 Gordon A. Winter interview, St. John's, Newfoundland and Labrador.

[17] Chesley A. Crosbie's report to the Governor of Newfoundland is contained in a 15 February 1949 telegram from the Canadian High Commissioner in Newfoundland to the Secretary of State for External Affairs, Documents and Relations between Canada and Newfoundland, Vol. 2, 1940-1949, P. Bridle, ed. (Ottawa: Supply and Services Canada, 1984) at 1514-1518.

[18] *Supra*, note 2.

[19] (i) *Canada v. P.E.I.* [1978] 1 F.C. 533 (C.A.).

(ii) *Friends of the Island Inc. v. Canada* [1993] 2 F.C. 229 (T.D.); rev'd in part (1995) 131 D.L.R. (4th) 285 (F.C.A.).

(iii) *Re: Waters & Water Powers*, [1929] S.C.R. 200.

(iv) *A.G.B.C. V. A.G.-Can.*, [1994] 2 S.C.R. 41.

[20] *Edwards v. A.G.-Can.*, [1930] A.C. 123.

[21] *Supra*, note 21, at 136.

[22] P.W. Hogg, *Constitutional Law of Canada*, 4th ed. (Toronto: Carswell, 1992), at 420.

[23] *Ibid.*, at 421.

[24] *Canada Trust co. v. A.G.B.C.*, [1980 2 S.C.R. 466. See also *Re: Residential Tenancies Act*, [1981] S.C.R. 341; *Skapinker v. Law Society of Upper Canada*, [1984] S.C.R. 284.

[25] *Hunter v. Southam Inc.*, [1984] 2 S.C.R. 145.

[26] *Friends of the Island Inc. v. Canada* (1993), 102 D.L.R. (4th) 696 (F.C.T.D.); *P.E.I. v. Can.*, [1978] 1 F.C. 533 (C.A.); *P.E.I. v. C.N.R.*, [1991] 1 F.C. 129 (C.A.).

[27] *A.G.B.C. v. A.G.-Can.*, [1994] 2 S.C.R. 41.

[28] A.W. MacKay "The Supreme Court of Canada and Federalism: Does/Should anyone care anymore?" (2001) 80 C.B.R. 241, at 242.

[29] *A.G.-Can. v. A.G.-Ont (Labour Conventions)*, [1937] A.C. 326 (P.C.).

[30] 2 January 2003 Gordon A. Winter Interview, St. John's, Newfoundland and Labrador.

[31] *Ibid.*

[32] *Supra*, note 27.

[33] *Pollock v. R.*, [1955] 5 D.L.R. 698 (Ex. Ct.).

[34] *Reid v. March* (1965), 51 D.L.R. (2d) 186 (Nfld. T.D.).

[35] Re: *Bowater's Nfld. Pulp & Paper Mills Ltd.*, [1950] S.C.R. 608.

[36] *A.G.B.C. v. A.G.-Can., supra*, note 29.

[37] *Societé des Acadiens v. Ass. of Parents for Fairness in Education*, [1986] 1 S.C.R. 549.

[38] *Id.*, at 578.

[39] Ref: *Re Ontario Education Act Amendment*, [1987] 1 S.C.R. 1148

[40] *Id.*, at 1176.

[41] Re: *Eskimos* [1939] S.C.R. 104.

[42] 2 January 2003 Gordon A. Winter interview, St. John's, Newfoundland and Labrador.

[43] An Act to repeal certain Fisheries Laws in force in the Province of Newfoundland respecting the Exportation of Salt Fish, 7-8 Elizabeth II, c. 49.

[44] An Act to repeal certain Fisheries Laws of Newfoundland, 8-9 Elizabeth II, c. 15.

[45] Smallwood, *supra*, note 6, at 417.

[46] *Supra*, note 8, Part II, Section 2. p. 4.

[47] The other members of the McNair Commission were economist John Deutsch and Sir Albert J. Walsh, Chief Justice of Newfoundland, former Lieutenant Governor of Newfoundland and former Chair of the 1948 Newfoundland delegation.

[48] Roland A. Ritchie later was appointed to the Supreme Court of Canada.

[49] R.A. Ritchie, "Memorandum on Behalf of the Government of Canada: Royal Commission on Newfoundland Finances under the Terms of Union of Newfoundland with Canada", at 19-20.

[50] Smallwood, *supra*, note 6, at 420.

[51] Smallwood, *supra*, note 6, at 421.

[52] John Ottenheimer news release, "1998 Budget Built Flimsily on One-time Budgetary Measures," 13 April 1998.

[53] *Supra*, note 27.

[54] *P.E.I. v. C.N.R., supra*, note 26.

[55] *A.G. P.E.I. v. A.G.-Can.* [1976] 2 F.C. 712 (C.A.).

[56] *P.E.I. v. Canada, supra*, note 26.

[57] *CNR v. Moffatt* (2001), 278 N.R. 83 (F.C.A.).

[58] Ref: *Re Newfoundland Continental Shelf*, [1984] 1 S.C.R. 86.

[59] *Re: Mineral and Other National Resources of the Continental Shelf (1983)*, 145 D.L.R. (3d) 9 (Nfld. C.A.).

[60] Report of the Special Joint Committee on the Amendment to Term 17 of the Terms of Union of Newfoundland, December 1997.

[61] 2 January 2003 Gordon A. Winter interview, St. John's, Newfoundland and Labrador.

[62] *Hogan v. Nfld.* (1997) 154 Nfld. & P.E.I.R. 121 (Nfld. S.C., T.D.).

[63] 2 January 2003 Gordon A. Winter interview, St. John's, Newfoundland and Labrador.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

The Lasting Breach: The Omission of Aboriginal People From the Terms of Union Between Newfoundland and Canada and its Ongoing Impacts

— Maura Hanrahan

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

The 1949 Terms of Union between Newfoundland and Canada made no mention of Aboriginal people in the new province. This deviated from standard practice when a jurisdiction joined the Canadian federation and First Nations people were registered, reserves created, and programs and services delivered. Because there was no mention of First Nations, the *Indian Act* was not applied in Newfoundland. This meant that the province's Innu and Mi'kmaq were ineligible for the range of programs and services enjoyed by their counterparts in continental Canada. In fact, they did not exist in law and thus lacked the recognition as previously sovereign nations that their counterparts enjoyed elsewhere in Canada. Thus, their situation is unique in the country.

Indeed, recognition for them and for the Inuit and their cousins, the Labrador Metis, has come very slowly and in piecemeal fashion. The omission has had lasting negative repercussions in Newfoundland and Labrador in terms of community health, community infrastructure, and land claims, etc. While the Labrador Inuit land claim moves towards resolution, there remain three other outstanding claims in the province.

About the Author

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Contents

Glossary 201

Introduction: An Untold Story 203

The Aboriginal People of Newfoundland and Labrador 204

- **The Mi'kmaq: The People of the Dawn** 204
- **The Innu of Labrador: Life in Nutshimit** 208
- **The Inuit and the Metis: The People of the Big Land** 211
- **Aboriginal Organizations in Newfoundland and Labrador** 217
  - Political Organizations 217
  - Pan-Aboriginal Organizations in the Province 217
  - Aboriginal Women 218

A Brief History of Aboriginal People's Relationship with Government 218

The Implications of the Omission of Aboriginal People from the Terms of Union 222

What's Possible: the Examples of Conne River and the LIA 224

Land Claims 226

- **Understanding Land Claims in Canada** 226
- **Land Claims in Newfoundland and Labrador** 227

The Way Forward 230

- **Lessons from British Columbia** 230
- **Lessons from the Harvard Project** 230

Conclusion and Recommendations 231

- **General Recommendations** 231
- **Specific Recommendations** 233
- **Land Claims** 233

Bibliography 235

Appendix 1 Aboriginal Communities in Newfoundland and Labrador 243

Appendix 2 Chronology of Selected Events 244

Appendix 3 Selected Mi'kmaq Placenames on the Island of Newfoundland 248

Appendix 4 Natuashish: How to Build a Community 250

Appendix 5 Thoughts on the Relocation of the Mushuau Innu 251

Glossary

Aboriginal: A collective name for all the original peoples of Canada and their descendants. According to Canada's *Constitution Act*, 1982, this group consists of First Nations (formerly "Indians"), Inuit (formerly "Eskimo"), and Metis.

Angekok **:** Traditional Inuit religious leader.

Band: A community of First Nations people for whom lands have been set apart and for whom the Crown holds money. It is a group of Indians declared by the Governor-in-Council to be a band for the purposes of the *Indian Act*.

Beothuck: First Nation indigenous to the island of Newfoundland. Extinct due to disease, settler encroachment, and conflict with settlers, although some Newfoundland Mi'kmaq and settlers' descendants have Beothuck ancestry.

Federation of Newfoundland Indians (FNI): The political organization that represents 4,000 non-status Newfoundland Mi'kmaq.

First Nation: People or a community indigenous to a region in Canada; used in place of the archaic word "Indian". In Newfoundland and Labrador, the two First Nations people are Mi'kmaq and Innu.

***Ilnui*:** The Mi'kmaq' name for themselves, meaning 'the people'.

Indian Act: The federal legislation pertaining to the registered Indians of Canada.

Indian and Northern Affairs Canada (INAC): the federal government department with responsibility for First Nations and Inuit. Formerly called the Department of Indian and Northern Development (DIAND).

Indigenous: Native to an area; the term is increasingly used to describe the Aboriginal people of Canada and elsewhere.

Innu: First Nation of Labrador and Quebec; in this province, they live in Sheshatshiu and Davis Inlet/Natuashish. (Formerly known as Naskapi and Montagnais or Mountaineer Indians.)

Innu Nation: The political body representing the Innu of Labrador.

Innu-aiumn: The language of the Innu, still the first language of virtually all Innu.

Inuit: Indigenous people of Arctic and sub-Arctic Canada and the international Circumpolar region. In Labrador, they live in Nain, Hopedale, Makkovik, Postville, Rigolet, Northwest River in Northern and Central Labrador, and in the urban centers of the province. (Formerly known as Eskimo.) Note that Inuit do not come under the *Indian Act*; thus, terms like status, non-status, and reserve do not apply to them.

***Kablungajuit*:** The term literally means "almost white men" and refers to residents of Labrador's North Coast who have mixed Inuit-European ancestry. They are members of the Labrador Inuit Association.

Kayak: Smaller Inuit skinboat.

Komatik: Inuit sled, historically pulled by dogs, now pulled more often by snowmobile.

Ktaqamkuk: The Mi'kmaq name for the island of Newfoundland. There are various spellings, including *Taqamkuk* and others.

Labrador Inuit Association: The political body representing the Inuit of Northern Labrador and their descendants.

Labrador Inuit Lands (LIL): A designated area of 6,500 square miles under the Labrador Inuit land claim (as yet unsettled).

Labrador Inuit Settlement Area (LISA): A larger designated region under the Labrador Inuit land claim (as yet unsettled).

Labrador Metis Nation: The political body representing the Inuit-Metis of Southern and Central Labrador and their descendants.

Metis: In the Labrador context, this means the Aboriginal descendants mainly of British men and Inuit women. They live in the coastal communities of Southern Labrador from Lodge Bay to Paradise River, as well as Mud Lake, Northwest River, and the urban centers of the province. Note that Metis do not come under the *Indian Act*; thus, terms like status, non-status, and reserve do not apply to them.

Miawpukek Mi'kamawey Mawi'omi: Government of the Conne River Mi'kmaq, the province's only status Indians.

Mi'Kima'ki: The original Mi'kmaq territory, encompassing the Maritimes, the island of Newfoundland, Northern Maine, and the Gaspe Peninsula.

Mi'kmaq**:** Along with the Beothuck, the Mi'kmaq are a First Nation indigenous to the island of Newfoundland (and elsewhere on the East Coast of North America). The word Mi'kmaq derives from *nikmaq*, which means 'friends' and is a greeting. (The Mi'kmaq' name for themselves is actually *Ilnui*, which means the people.)

Native American: The most commonly used term to describe the Indigenous people of the United States.

Nitassasin: Innu name for their homeland, the Quebec-Labrador Peninsula.

Non-Status Indian: People who identify as Indians but are not recognized under the *Indian Act*. They are not entitled to the same rights and benefits as status Indians. In Newfoundland and Labrador, this includes most Mi'kmaq and, until quite recently, all Innu.

Nutshimit: Roughly translated as 'the country', but also means the place of serenity and belonging for the Innu.

Reserve: Land set aside by the Crown for an Indian band. In Newfoundland there is one reserve at Conne River; so far, there are none in Labrador but plans are underway to create Innu reserves at Sheshatshiu and Natuashish, the new location of the Davis Inlet Innu.

Seasonal transhumance: The practice of moving home from one location to another depending on the season; it is a way of maximizing natural resource use.

Status Indian: People who are entitled to be on the federal government's Indian Register; these are the Indians who are recognized under the *Indian Act*. In Newfoundland and Labrador, this includes only the members of Miawpukek First Nation (Conne River). At present, the Innu are undergoing registration.

Terms of Union: the 1948 legal agreements between the Dominions of Newfoundland and Canada, upon which their union was based.

Tshishe-Manitu**:** the Creator, the Great Spirit, who gave Nitassinan to the Innu.

Umiak: large skin boat used by the Inuit.

Utshimassits: Innu name for Davis Inlet, meaning "place of the boss".

Introduction: An Untold Story

The Terms of Union between Newfoundland and Canada contained no mention of Aboriginal people; it was as if they did not exist in Newfoundland and Labrador. This meant that First Nations people in Newfoundland and Labrador were not registered as Indians under the *Indian Act*. Indeed, as I will demonstrate, federal officials decided to omit First Nations and the province's other Aboriginal people: the Inuit and their cousins, the Labrador Metis from the Terms.

With no registered bands and no reserves, the province's First Nations were treated the same as other citizens of Newfoundland and Labrador. Thus, Newfoundland and Labrador is the only province in which Canada decided to entirely ignore its fiduciary responsibility to First Nations people.

While an "experimental reserve" was established at Conne River in 1986 and the Innu are in the process of registering now, the half century of neglect has had far-reaching impact on First Nations in the province. In addition, there is no guarantee that the majority of the island's Mi'kmaq population will ever be registered, despite their long campaign for registration.

The Inuit and Metis of coastal and central Labrador have also been marginalized for much of post-1949 history. The Inuit, through the Labrador Inuit Association (LIA, their political organization) have begun to catch up and are close to settling their land claim. (In this, they are unique among the province's Aboriginal peoples.) However, although they are Inuit descendants, the Labrador Metis remain on the fringe of the range of programs and services offered to Aboriginal people elsewhere in Canada.

Mi'kmaq and Innu have also been unable to participate equally in programs and services aimed at Aboriginal people. The resulting discrepancies continue to this day. Even the Conne River Mi'kmaq have not been able to catch up to First Nations elsewhere in Canada in terms of land claims and other processes.

This paper has the following premises, each of which is accepted and operational in Aboriginal politics in Canada:

- Aboriginal peoples constituted and constitute nations that were sovereign before contact with Europeans;
- Canada's relationship with Aboriginal people is one of nation to nation; hence, the existence of treaties and land claims;
- Canada has a fiduciary responsibility to the First Nations, Inuit, and Metis as per the *Constitution Act, 1982*;
- Aboriginal people were omitted from the Terms of Union between Newfoundland and Canada (this is discussed in Section 3);
- Aboriginal people lag significantly behind other Canadians in terms of income, education, housing, health, and life expectancy (see Newbold, 1998, who reported that the life expectancy of Aboriginal men is 64, compared to 76.3 for Canadian males as a whole; for Aboriginal women, it is 71, compared to 79 for Canadian women as a whole. Infant mortality rates, injury rates, and the incidence of poverty are also higher in the Aboriginal population.); and,

- there is growing recognition that self-determination and governance are important to long-term social and economic health in Aboriginal communities (this is discussed in Section 7 in some detail).

Given space constraints, it is impossible to discuss or even identify every issue facing the several Aboriginal nations in this province. Thus, the focus here is on providing a basic introduction to the Innu, Inuit, Metis, and Mi'kmaq, and their respective organizations, and on discussing their omission from the Terms of Union and its implications.

One of the premises of this paper is that there is in the province (and beyond) considerable confusion about the various Aboriginal groups (eg. uncertainty about the differences between the Innu and the Inuit). Many people understand Aboriginal people to be those who are recognized by government, although recognition is rarely understood or defined. This perception is not a useful one, particularly in the Newfoundland and Labrador case – which is an anomaly in Canada. In addition, certain myths have become part of conventional wisdom, although there is no evidence for them (eg. the notion that the Mi'kmaq were brought over from Nova Scotia to kill the Beothucks).

Thus, readers are asked to approach the subject with an open mind; much recent research allows us to have a clearer idea of Aboriginal history and culture in Newfoundland and Labrador. The report concludes with recommendations intended to reflect the articulated concerns of Newfoundland and Labrador's Aboriginal people. Readers are also encouraged to consult the Appendices which provide additional information on Aboriginal history and culture in this province.

The Aboriginal People of Newfoundland and Labrador

The Mi'kmaq: The People of the Dawn

For many centuries, the Mi'kmaq lived and thrived in what we know as the Gaspe Peninsula, the Maritimes, the island of Newfoundland, and Northern Maine: *Mi'Kma'ki*. Their country was, in Charles Martijn's words, "a domain of islands" (Martijn, 1987). Besides the eastern Canadian provinces and parts of New England, they made use of St. Paul's Island and the Magdalen Islands in the Gulf of St. Lawrence, as pre-contact archaeological evidence shows (see *ibid*). Thus, Mi'kima'ki consisted of more than 120,000 square kilometres of land.

In eastern North America, they practiced seasonal transhumance – moving from place to place as the seasons changed so they could have access to resources. In spring they settled in coastal villages and engaged mainly in fishing. In late summer they moved inland due to the fall bird migration and the eel runs. In winter their focus was land animals, including bear and beaver. In the winter in particular they were nomadic, hunting alone or in small nuclear family groups. Their language has more words than English and has been described as more beautiful than Latin.

The Mi'kmaq nation was part of the Wabanaki Confederacy, which also included the Quebec Abenakis, the New Brunswick Maliseets, and the Passamaquoddies and Penobscots of New England. In turn, the Wabanaki was one of the seven confederacies of the Eastern seaboard of North America. Thus, the Mi'kmaq constituted a nation among nations. The borders that define modern-day states and provinces were unknown to the Mi'kmaq; it was European colonization that divided their country and disrupted their traditional pattern of land use and occupancy.

Their name, derivative of the word *nikmaq*, means kin-friends and was used as a greeting in early encounters with the French. They also called themselves "the people of the dawn" in a reference to the fact that the sun rises first in their country, the east.

Mi'kmaq seasonal transhumance almost disappeared as the French fur trade became the focus of Mi'kmaq life in 17th century Nova Scotia. Their semi-integration into the European economy also meant that the Mi'kmaq now had access to alcohol, which caused social values to change. Life expectancy declined due to the sudden alterations in the Mi'kmaq diet, accidents related to alcohol, and various outbreaks of European diseases. Over one-third of the entire Mi'kmaq population died from a contagious fever believed to be typhus in 1746; their numbers were further reduced due to a smallpox epidemic in 1800/1801 (Lawrence, 2002: 34-35; see also Whitehead and McGee, 1983; Upton, 1979; Wallis and Wallis, 1954).). A Nova Scotia settler petitioned the authorities in 1794: "…a great many Mickmack have died for want of victuals…if they have not some more general relief they and their wives and children must in a few years all perish with cold and hunger in their own country" (Whitehead and McGee, 1983: 56).

The Mi'kmaq in what is now Nova Scotia and New Brunswick waged what has been called "the longest anti-colonial war in North America" (Lawrence, 2002*: 35*). In 1712 the British gave the Mi'kmaq poisoned food; in 1745, they distributed blankets contaminated with disease to a population already threatened with extinction due to land loss, disease, and war (*ibid*: 34). In addition, British slave traders kidnapped Indigenous people, including the Mi'kmaq, and sold them in slave markets all over the world (*ibid*). For two decades in the late 1700s, the British paid bounties to the Goreham's Rangers from Massachusetts for Mi'kmaq heads – scalps (*ibid*). All this reduced their numbers from 200,000 to just over 1,500 by the early 1800s (*ibid*: 35).

The remaining Maritime Mi'kmaq were further victimized by the "Norman Yoke": part of the European Doctrine of Discovery, it claimed that those who did not "develop" the land had no rights to it. When the British opened the Maritimes for white settlement they did not set aside land for the Mi'kmaq or other Indigenous people.

At least one group of Mi'kmaq took decisive action to avoid the fate that awaited them if they stayed in Nova Scotia. They decided to move to Newfoundland. Cape Breton Island and the far away island of Newfoundland made up *Wunama'kik*, the "the foggy district" of Mi'kima'ki (although in some accounts Newfoundland or *Ktaqmkuk* is considered to be a separate district). They seemed not to know that Newfoundland was an island; the word *Ktaqmkuk* means "the mainland" or "little continent" (Howley, 1915: 285).

The Mi'kmaq based in Newfoundland, *Ktaqmkuk*, were well known to the Cape Breton Mi'kmaq. The two groups gathered annually at Chapel Island, Cape Breton every summer. The Newfoundland Mi'kmaq were referred to as "the Ancients" *(Sa'yewedjkik)*, indicating their long-term residence in Newfoundland. Mi'kmaq oral history says that the Mi'kmaq were in Newfoundland when the Europeans first arrived. A Nova Scotia Mi'kmaq called Joseph Nowlan born about 1767 told Silas Rand, compiler of the Mi'kmaq lexicon, "The Micmacs time out of mind have been in the habit of crossing over to Newfoundland to hunt" (*ibid*). A New Brunswick Maliseet called Gabe, who was very old in 1887, also explained that "the older people" of his tribe visited Newfoundland periodically for fur (*ibid*).

These accounts contradict the myth that the Mi'kmaq were brought over from Nova Scotia to exterminate the Beothuck – a myth that was in schoolbooks until recently and contributed to the stigma attached to being Mi'kmaq in Newfoundland. The notion of Mi'kmaq as hired mercenaries was doubted by Howley who attributed it to Twillingate magistrate John Peyton, the man who kidnapped Beothuck woman Mary March in 1819 (*ibid*: vi). Millais, who spent time with the Mi'kmaq a century ago also doubted it (see Millais, 1907). More recently, the myth was discredited by Fred Rowe (Rowe, 1977) and historian Ralph Pastore (Pastore, 1978). In addition, no solid evidence of a Mi'kmaq campaign of violence against the Beothuck has ever been discovered.

The written record (only part of which will be examined here) attests to the long-term Mi'kmaq presence in Newfoundland. According to the historical record, the Newfoundland Mi'kmaq had villages at Bay St. George and Placentia *(Presentic* or *Pliisantic* in Mi'kmaq) Bay in 1594 and White Bear Bay in 1538 (Wetzel, 1995: 132). In 1602, a Biscay shallop carrying eight Mi'kmaq men hailed the vessel of a Captain Gosnold near Maine; Gosnold wrote that the Mi'kmaq named Placentia in Newfoundland, indicating that their knowledge of Newfoundland and of Basque and French settlement there extended that far (Whitehead, 1991: 22). Meanwhile in 1612 colonist John Guy saw Mi'kmaq living at the bottom of Trinity Bay. The same year, he saw Mi'kmaq at a place called Passage Harbour (Wetzel, 1995: 136).

In 1670, Joseph Matthews of Ferryland gave an account of the Mi'kmaq (Prowse, 1972 [first published in 1895]: 179). A kind of bailiff or sheriff working for the governors of the Ferryland plantation, Matthews wrote of Mi'kmaq hunting and trapping activity in St.Mary's, St. Mary's Bay on the Avalon Peninsula, well to the east of what is normally considered Mi'kmaq country. In 1680, a French report recorded the presence of 240 Mi'kmaq at their summer fishing camp near Placentia (Wetzel, 1995: 150).

In 1705, 25 Mi'kmaq families emerged from the woods to trade at Placentia; more were expected in the spring (Marshall, 1996: 45). In 1707, there were 60 Mi'kmaq families at Placentia and St. Pierre (Wetzel, 1995: 110) The next year, 30 Mi'kmaq families wintered in Fortune Bay (*ibid*). There were so many Mi'kmaq along the coast that the British were reluctant to fish there; indeed, this area was the last in Newfoundland to be settled by Europeans. Hewson concludes that the Mi'kmaq shared the island with the Beothuck, who were centred on the Northeast Coast and the Exploits River system; this meant the Mi'kmaq had the interior of the island to themselves for at least three centuries.

Mi'kmaq oral history records a Mi'kmaq presence on the island since the 1400s, if not earlier. The archaeological evidence on the Magdalen Islands proves that the pre-contact Mi'kmaq constructed seagoing vessels. The long list of Mi'kmaq placenames shows the vast extent of the Newfoundland territory of the Mi'kmaq. This list includes but is not limited to:

- *Mekap'sk* (Great Northern Peninsula);
- *Quemo Gospen* (Avalon Peninsula);
- *Megoesagtiji'jg* (Red Island, Placentia Bay); and,

- *Kjipa'tilia'sewey Qapskuk* (Bishop Falls) (Sources include Wetzel, 1995; Hewson, 1978; and Seary, 1971. Note that spellings may vary from source to source. For a more complete list, see Appendix 4.)

For a long time, the Mi'kmaq of Newfoundland were not subjected to the kind of treatment their brethren in Nova Scotia were suffering. In fact, they were rarely even observed by Europeans. Cormack noted that in 1822 the Mi'kmaq greeted him as the first white man they had seen in insular Newfoundland, an area they said they shared partly with the Beothuck (Howley, 1915: 150-152). The Mi'kmaq Cormack encountered described to him family hunting territories that stretched from the Southwest corner of the island to the Northeast Coast. Much of what we know about Newfoundland Mi'kmaq land use from the historical record corresponds to Mi'kmaq oral history, as Speck pointed out (Speck, 1922).

According to Captain Cook's 1763-1768 survey, there were few European settlements on Newfoundland's Southeast coast, another region of importance to the Mi'kmaq. Cook found that European fishing activities were concentrated in only a few places, St. Jacques, Fortune and Grand Bank in Fortune Bay, and Port-aux-Basques at the tip of the Southwest coast (Hanrahan, 2002a: 4, citing Wetzel, 1980: 51. Until the mid-1800s, this part of the island was more sparsely settled by Europeans than other parts and was not fully populated until 1870. In 1857, the settler population from Fortune Bay to LaPoile was only 7,038, less than seven percent of the island's total (*ibid*, citing Mannion, 1977).

In the interior, the Beothuck and Mi'kmaq respected each other's hunting and fishing grounds and, in the main, had good relations. Further, although it is not widely known, there was a great deal of intermarriage between the Mi'kmaq and the Beothuck, as John Paul, a Mi'kmaq, of Badger informed anthropologist Frank Speck in the 1910s. According to Mi'kmaq history, the two groups shared a village at St. George's Bay (Coish, 2000: 58). Being from the same ethnic group and sharing the same cultural outlook, it was not long before the Ancients and the Cape Breton Mi'kmaq were merged. Together, with some Beothuck and probably Innu who married into the group, they formed the body of ancestors of Newfoundland's current Mi'kmaq population.

Up until the late 1800s, the Newfoundland Mi'kmaq were nomadic hunters and fishers, utilizing the southern wilderness, rivers and coasts of the island. (Their movements went well beyond the seasonal transhumance of European Newfoundlanders, many of whom had a winter house and a summer station.) Remnants of this pattern persisted well into the 20th century. The areas in which they lived and worked were extensive, stretching from St. Mary's and Placentia Bays in the east to Notre Dame and Bonavista Bays in the north to the entire West Coast. Mi'kmaq camps were hundreds of kilometers apart, indicating that they had significant geographic knowledge of the island, especially overland routes through the interior. Data I collected from Sip'kop (St. Alban's) Mi'kmaq Elders in 2001 corresponds to information gathered by Speck on Mi'kmaq land use, hunting territories, and material culture, such as clothing, dwellings, and fishing technology; this points to a remarkable degree of cultural continuity (see Speck, 1922 and Hanrahan, 2002a).

Changes to Newfoundland Mi'kmaq life began in the late 1800s and continued into the 1900s. These included:

- intermarriage with the descendants of European settlers;

- church oppression in the form of forbidding the Mi'kmaq language and abolishing the office of chief;
- industrial development on their land, including hydro-electric development and large-scale logging; and,
- the development of a stigma attached to being Mi'kmaq.

Today there are 4,500 Mi'kmaq in Newfoundland living in a dozen communities, most of which are also made up of Aboriginal and non-Aboriginal people. The list includes Corner Brook, Grand Falls-Windsor, Benoit's Cove, Bartlett's Harbour, and others (see Appendix 1 for a complete list of communities). These Mi'kmaq are members of the Federation of Newfoundland Indians (FNI), whose membership is partly based on geography – that is, it is restricted to these communities in central and western Newfoundland.

A new Mi'kmaq organization, the Ktaqamkuk Mi'kmaq Alliance, established in early 2002, has a membership of 2,500 former-FNI and non-FNI Mi'kmaq and Mi'kmaq descendants. In addition, there is a large diaspora in Newfoundland of Mi'kmaq descendants, numbering about 20,000 in my estimation based on simple mathematics. Most of these people have family roots in southern Newfoundland, including the Burin Peninsula, and in central Newfoundland, including Notre Dame Bay. They are not members in any of the Mi'kmaq organizations and may or may not identify as Mi'kmaq or part-Mi'kmaq.

The approximately 800 Conne River Mi'kmaq are the province's only status Indians and are not members of the FNI either. They were registered under the *Indian Act* in 1984 and granted a reserve two years later. Their number also includes members in St. Alban's (Sip'kop) who are, oddly, considered off-reserve band members although they have never lived in Conne River. (Off-reserve members are not entitled to the same rights and access to programs as on-reserve members.) Thus, the Conne River Mi'kmaq were the only First Nations community in Newfoundland and Labrador able to avail of the same programs and services as First Nations elsewhere in the country. (This will change as the Innu become status Indians, a process they are currently undergoing.)

The Innu of Labrador: Life in *Nutshimit*

Nitassinan, the Innu homeland, extends from coastal Labrador to what is now the interior of Quebec and is divided by the treeline. Considered a harsh environment by some, the Innu (meaning "the people") were able to survive – and even thrive – in Nitassinan for thousands of years. Referred to in earlier times as Naskapi (roughly, the Sheshatshiu group) and Montagnais (roughly, members of the Davis Inlet/Natuashish community), the Innu are part of the Northern Algonquin tradition. This tradition also includes the Cree of Quebec and westwards and the Ojibwa of Ontario and Manitoba.

Early Jesuit missionaries were astonished and disturbed by the relative freedom afforded to Innu women. Innu women could make significant decisions, were free to marry the men they liked, and to divorce. Men and women had different spheres but both were autonomous within these spheres. Men made decisions about hunting, while women usually chose camp locations.

The Innu hunted wolves, otter, fox, lynx, rock ptarmigan, and spruce partridge, using the animals' skins for clothing and their meat as nourishment. In times of scarcity, they hunted and ate hare and squirrel. It was caribou, however, that Innu lives revolved around. In the words of Elder Mary Jane Pasteen who was born around 1875: "Not very long ago people used to make tents out of caribou skins. First they take the fur off of the deerskins and make them soft. Then they smoke them. It took 10 caribou to make a tent. I used to kil. caribou when I was young. Whenever the caribou crossed the George River, when there were no men around, we women had to chase caribou by canoes. When I was in the front of the canoe, I had a spear with me. There was no problem to kill a caribou. A lot of women killed caribou in the water with spears and guns" (Gregoire, 1984).

The caribou is at the centre of Innu culture and spirituality. For the Mushuau Innu, *Katipinimitaoch*, the caribou spirit, is the supreme master of everything, including other animals (Henriksen, 1973: 35). The *Mukaushan*, a ritual communal meal involving the consumption of caribou bone marrow, is held to honor *Katipinimitaoch*. This is one example of how Innu beliefs focus on natural and supernatural animal life, and on hunting and individual and community relationships to the land. Innu communicate with these spirits through drumming, dreams, and the shaking tent ceremony. Respect in all relationships is paramount.

Innu culture and spirituality is rooted in the land, the bush, *nutshimit* (the place of serenity for Innu): "It is here that the world-view and the philosophical concepts which are part of the Montagnais intellectual culture were formulated. By living in this land an entire people learned to define itself and to define its relationship with others" (Vincent and Mailhot, 1983: 20).

In the post-contact period, the Innu became nominally Roman Catholic, although they were the last First Nation in North America to convert. The first missionaries came to the trading posts of Davis Inlet and Sheshatshiu in the late 1800s. The missionaries abolished shamanism and rituals like the shaking tent, which they claimed were associated with the devil. Drum dances were also banned and the practice of Elders naming children ended; instead, the priest now chose children's names. The priests' power were further consolidated by economic means. In Davis Inlet, it was the priest who distributed food, clothing, and gun vouchers. In the early settlement period, the priest was also the schoolteacher, thus bringing Innu children under his constant influence.

Some Innu see no contradiction between their own religion and the practice of Christianity, though in recent years, the former has been forced underground, and the Innu have become more vocal about abuse by priests (Tanner et al, n.d.). Unlike many First Nations groups in Canada, the Labrador Innu were not subject to the residential school system (nor were the Newfoundland Mi'kmaq).

The Innu Nation (the Innu political organization) has identified the following ongoing problems in its communities:

- unemployment rates of over 80 per cent;
- a culturally and socially inappropriate education leading to a high school graduation rate of less than five per cent;
- solvent abuse;
- suicide; and,
- a lack of Innu involvement in policing.

In 1995, the Innu Nation published *Gathering Voices: Finding Strength to Help Our Children*, a document that was the outgrowth of the Mushuau Innu's People's Inquiry into conditions in Davis Inlet. Comprehensive and useful to anyone who wants to learn about the Innu, *Gathering Voices* examined the roles and effects of the following institutions: government; the church; the school; social services; the clinic and health services; the police and justice system; and the store.

Although a complete discussion of *Gathering Voices* is beyond the scope of this paper, we can say that the problems the Innu face can be traced to the their status as an internally colonized people who enjoy little to no self-determination. Colonialism has dramatically altered Innu society and has left Innu communities traumatized. In the 1970s, some 6,000 square miles of Innu land was flooded for the Upper Churchill hydro-electric development. Lake Michakamau, a place of profound importance to the Innu, disappeared under water; numerous Innu graves went with it. Nomadic through the 1960s, the Innu found out about the flooding only when they came across it while hunting. It was the same way with Confederation; few Innu voted in the referenda of 1948 that led to Newfoundland and Labrador's union with Canada. Their leadership was not consulted as Newfoundland and Canadian politicians decided not to register them as Indians.

Innu became sedentary because they were heavily pressured by both the church and the government to end their nomadism. The Mushuau Innu were settled in Davis Inlet, on an island that was cut off from the rest of Labrador for most of the year. Other Innu groups were settled at Sheshatshiu, near the site of the old Northwest River trading post in Central Labrador. With their children in school and their household economies dependant on welfare cheques, Innu found themselves removed from their own culture and from the white society that surrounded them. In the country, the emphasis was on sharing, which brought prestige and social cohesion. In the community, however, the Innu were immersed in a capitalist economy in which materialism and saving were valued. A large disconnect and crisis of meaning resulted. At a rapid rate, Innu ritual communication, such as the *Makashan*, lost its importance.

Another, earlier, turning point in Innu history was the 1927 decision of the Judicial Committee of the British Privy Council to award much of the Labrador peninsula to Newfoundland (rather than to Canada). This meant that a line now cut Nitassinan in half, separating Innu families into Quebec and Newfoundland. (Today, the second language of Innu in Quebec is French, while for those in Labrador, it is English.) Less than two decades later, the construction of the air base at Goose Bay brought a large influx of non-Aboriginal people into Nitassinan and began the ongoing militarization of the Labrador economy. Today, the base is run by NATO and serves as a low-level flight training centre; in 1996, there were 6558 flights over Quebec-Labrador (Samson, 1999: 31). Innu elders believe that these flights, some of which are no more than 100 feet in the air, harm the wildlife upon which Innu have always depended. Certainly, Innu have never benefited from the nearby base or from other industrial developments; they remain marginalized in the modern economy. In addition, they have had to contend with the social problems that go hand in hand with an extensive military presence, including drugs and violence.

For many years Innu have campaigned to make others aware of their precarious situation. They believe that not being registered as status Indians has contributed to the crisis in their communities. Like the Newfoundland Mi'kmaq, they were not registered under the *Indian Act*, were not granted reserves, and were not allowed access to the range of programs, services, and local governance generally afforded other First Nations in Canada. They signed no treaty and, thus, did not cede their land or give up their rights. In their words: "What we require are the tools to undertake this responsibility: funding, devolution of programs and services, and local governance of our communities" (Innu Nation, An Appeal, n.d.).

Many Mushuau Innu believe that a new beginning is possible with the creation of the new community of Natuashish that they helped design and construct (see Appendices 3 and 4). In addition, they and the Sheshatshiu Innu are currently registering under the *Indian Act*, thus making them status Indians. While they are finally able to participate in the range of programs and services available to First Nations people in Canada, they have a great deal of catch up to do and face significant social problems; the vast majority of Innu youth drop out of high school, for example, due at least partly to a curriculum that is alien to them. These well-documented problems might not have developed to such an extent had the Innu been included in the Terms of Union – for example, the Innu would have been in a much better position to control education had they been recognized as First Nations bands under the *Indian Act*.

Today the province's 1,800 Innu live in Sheshatshiu and Davis Inlet/Natuashish. Their language is vibrant; *Innu-aimun* remains the first language of virtually every Innu. They have close ties to their relatives in Quebec, who number 14,000, and some spend part of the year in one of that province's 11 Innu communities or vice versa. To the Innu, the provincial border remains meaningless. The Innu population is growing rapidly, similar to many First Nations across Canada, with approximately half of each community under age 18. This indicates the need for more housing, educational facilities, health services personnel, etc. in the coming years.

The Inuit and the Metis: The People of the Big Land

Much is known about the pre-contact Inuit in Labrador, elsewhere in Northern Canada, Greendland, Alaska, and Russia. Their religion was based on the need to appease the spirit entities found in nature. They had a rich cosmogony and mythology with a varied population of male and female spirits.

Hunting and fishing were governed by a complex of rituals, rules, and taboos. Inuit ate mainly seal and whale (hunted from *kayaks* and *umiaks*, skin boats), caribou, salmon, and whitefish. They lived in family groups of between 20 and 30, associated with particular geographic areas because of their practice of seasonal transhumance. These family groups were interconnected through intermarriage, language, and cultural similarities. These family groups spent summers on the coast and moved inland in winter.

Like most societies, the Inuit had a strict sexual division of labour. Men were responsible for housebuilding, hunting, and transportation, while women had jurisdiction over childcare, and skin and food preparation. Marriage and divorce were simple procedures, and there were occurrences of polygamy, especially in the southern Inuit. Because Inuit believed that children were the spirits of deceased ancestors, they were treated with leniency and well-loved. Birth, the arrival of puberty, marriage, and death were all marked ceremonially.

The Thule Inuit were the ancestors of today's Labrador Inuit and Metis. Around 1300 A.D., Labrador, especially the coast, became the home of the Thule. The ancestors of today's Inuit descendants lived from Nain in the north to Lodge Bay in the south, and down to the Quebec Lower North Shore. For two centuries the Inuit resisted any form of migration to their country; the 1752 failure of Moravian missionary Johann Christian Erhardt and three others to establish themselves in Labrador is an oft-cited example of Inuit resistance. Further south, the Basques were never able to reach beyond Cape Charles (near Lodge Bay); in fact, this spot became the unofficial boundary between the European and fishing-oriented Labrador Straits and the Inuit country.

Further north at Nain, the Moravian missionaries established themselves in the 1770s after several attempts. At first, Inuit were not interested in the Christian religion. During the early Moravian years, Inuit continued their lives much as they had for centuries, engaging in a round of hunting and fishing activities and practicing seasonal transhumance to maximize resource use. For at least three decades, Inuit religious leaders – *angekok* – were actively opposed to Moravian evangelizing.

This changed with a mass conversion ("the Great Awakening"), similar to many others among Indigenous people in the Americas, at the turn of the 18th century. The Moravians established stations at Okak in 1776 and Hopedale in 1782. With Nain, these were the only three stations opened on the Labrador coast in the 18th century. The 19th century saw some expansion with the opening of: Ramah, which lasted from 1871 until 1907; Hebron, from 1830 until 1959; Zoar, from 1865 until 1904; and Makkovik in 1896, the only one of these that still operates. This expansion was followed by a contraction that saw a number of the stations close. A station at Killinek on the northern tip of Labrador lasted just 20 years after being established in 1904 (the year Zoar closed).

From their three most enduring stations of Nain, Hopedale, and Makkovik, however, the Moravians were to have a significant influence on many of the Northern Labrador Inuit. The Inuit under Moravian control developed a unique society. They were able to preserve their language, at least partly through the diligent efforts of the Moravians. The first task of any missionary was to learn Inuktitut so that he could preach to the Inuit. In addition, the Moravians translated many books, including the Bible, into Inuktitut. Until Newfoundland's Confederation with Canada, they also taught in Inuktitut (Peacock, 1981). Thus, there remain among the LIA membership several hundred Inuktitut speakers; there are also promising efforts to revive the language among this generation of children.

But perhaps the largest and possibly most lasting effect of the Moravians was the persistent denigration of Inuit culture. In this, no aspect of pre-contact Inuit life was left untouched. The Inuktitut religious system took the most severe battering, as the very purpose of the Moravian presence in Labrador was to convert "the heathen" to Christianity. For this reason, the missionaries eliminated the important office of shaman.

They also condemned Inuit values; they could see no benefit in sharing as the Inuit did. Sharing had served a practical value in this challenging geophysical environment. But the Moravians instead preached accumulation and saving; for them, this was part of civilizing the Inuit. Although it, too, served a practical purpose and was in fact necessary to sustain life in Labrador, seasonal transhumance was condemned. The Moravians' goal was to have the Inuit live year-round at the mission stations so they could access religious instruction, participate in Christian rituals, and learn from the example of the Moravians.

When some Inuit began to settle in Nain and the other sites, they were gradually absorbed into the economic system imported by the Moravians. This involved exchanging skins and other animal resources for European staple goods. It made the Inuit dependent on the missionaries, and more years than not, struggling to overcome debt. This constituted a massive change in Inuit economic – and ultimately social and cultural – life.

The Moravians were very concerned with the sexual mores of the Inuit – or their perception of these. Inuit marriages were traditionally not formalized in the manner of European Christians and, from the Moravians' perspective, their charges were guilty of sexual laxness and promiscuity. Under Moravian dominion, Inuit society became highly structured, more settled, possibly poorer, and probably denigrated – something which would have long-lasting negative repercussions.

An intergenerational disconnect developed as well, once Inuit and *kablungajuit* (mixed Inuit-European ancestry) children entered the Moravian school system. There, children learned not through the story-telling and demonstrating of skills by Elders and other Inuit adults – instead, they learned through texts chosen with a European cast. Thus, a considerable skill loss occurred. No Inuit was ordained in the Moravian church until the late 20th century, indicating the persistence of the hierarchy the missionaries imposed. In addition, Inuit were disciplined at a higher rate than the charges at any other Moravian mission worldwide. Discipline consisted of being forbidden to participate in feasts and other religious rituals for a period of weeks or months; it was decided upon and imposed by the missionaries. This represented the introduction of punishment to a people that had sophisticated methods and levels of behaviour control, including ignoring those who deviated from social norms, gossiping and, in the worst cases, osctracism (see Pauktuutit, n.d.).

Based on my fieldwork in Nain, Makkovik, Hopedale, and Postville, Inuit descendants have differing views about the Moravians and their effect. Some are proud of their ancestors' roles as Church elders. Many others, however, feel resentful of the missionaries and their legacy. Several Elders told me bitterly of the Moravians' tendency towards strictness, judgmentalism, and criticism. Some said, in tears, that they had suffered emotional and physical abuse at the hands of clergy and teachers.

One of the most painful episodes in Labrador Inuit history was the 1959 relocation of the once thriving community of Hebron, north of Nain. Home to 247 people and a Moravian mission station, the Hebron area was also the habitat of Arctic char, harp seals, caribou, and sea ducks. The decision to "transfer all Eskimo families from the Nutak (including Hebron) area to Nain or some point further south" move was made by the Moravian Church, the International Grenfell Association, and the province's Department of Northern Labrador Affairs (Evans, 2003: 50-51). The planned move was separate from Newfoundland and Labrador's controversial resettlement program, although it, too, had centralization and modernization as its aims.

Although residents were told they would be given one year notice, they were eventually given only a few months to move. Before long, they became marginalized people in Makkovik, Hopedale, and Nain; their homes were remote from the rest of the homes in these communities and they found that, naturally, all the best berths and trapping grounds were spoken for. Alice Pilgrim, an Inuk, told the Royal Commission on Aboriginal Peoples, "I think a lot of the people, not just my parents, they were spiritually broken because of the relocation" (*ibid*: 52). Although it is possible that financial compensation for the relocation may be included in the LIA land claim settlement, the wound remains an open one for the former residents of Hebron and their descendants.

Gradually over the past two centuries, the Inuit of Northern Labrador struck some sort of balance between their pre-contact ways and those imposed by European missionaries. Their determination to retain Inuktitut as a living language, their continuing close relationship with the land, and their enduring emphasis on sharing are traditional Inuit cultural features that survived Moravian tenure. Individual and collective resilience, too, are strong traits among this population.

But not all the Labrador Inuit made this adaptation. There were many Inuit outside the Moravian stations and influence; many of these married Europeans and their mixed blood descendants eventually became known as Metis (south coast) or *kablunangajuit* ("almost white men", on the north coast). They developed another manifestation of Inuit society and culture and were not subject to Moravian influence. This manifestation was influenced by the European heritage they acquired but mainly by centuries-old Inuit cultural and economic adaptations to the land – without the influence of the Moravians.

Most academic analyses of the origins of the Labrador Metis and *kablunangajuit* commences the moment the first European man set foot in Labrador. But this is a mistake and has limited usefulness regarding this population. The immigrating men did not bring their land, their geo-physical environments, the climates of their homelands, their extended kinship networks, their political structures, their religious institutions, or any of the other pieces of infrastructure that make up a society.

Instead, virtually to a man, they came alone with almost no possessions. They were mostly British and usually employees of the Hudson's Bay Company or other firms involved in the fur and fish trades, in Labrador to begin five year contracts. Nor did they have the necessary skills to survive in Labrador; they were not trappers or hunters, they didn't know how to live through a winter in this relatively harsh environment. The seasonal round of activities that sustained human life here were unknown to them and had to be learned. Perhaps their greatest asset in Labrador was their independence – many of them terminated their contracts to begin lives as self-employed trappers. This characteristic meshed nicely with the highly developed sense of freedom the Inuit have demonstrated for centuries.

Thus, the Inuit of Labrador were the receiving society for small numbers of European men who came to their homeland. This happened mainly in southern and central Labrador, although European men also migrated to Rigolet and Makkovik. In the historical record the people now called Metis were referred to as "Eskimo natives", "natives", "half-breeds", and "breeds".

Although there are others, one of the best accounts of early Metis society comes from trader Lambert De Boilieu who spoke of his time in the region as being "among the Esquimaux" in St. Lewis on the South Coast in the 1860s (De Boilieu, 1969 [first published in 1861]: 105). He described child-rearing practices, which were permissive. This is a trait that is seen throughout the Inuit world; it comes from the belief that deceased ancestors inhabit the spirits and bodies of children and no one would want to discipline an elder. Breast-feeding was lengthy, lasting some years, as the Moravians noted was the case on the north coast. The St. Lewis Inuit practiced polygamy, an institution that the Moravians had long forbidden further north. He noted the "remarkably clean" long, coarse, black hair of the women, which was "generally plaited and strung with particoloured beads" (*ibid*: 58).

Another topic to which the trader paid attention was Inuit hunting. He remarked on their use of "kyacks" and spears for hunting. De Boilieu even provided rare glimpses into the death beliefs and practices of the Southern Labrador Inuit: "The people are very jealous of the resting-places of their departed relatives, and make frequent visits to them to see if the tomb has been disturbed. Whenever they find it has, great is their tribulation, as they consider some dire mishap is about to fall on the family" (*ibid*: 63).

Christian institutions were largely absent from this region until Newfoundland's Bishop Feild visited in the mid-1850s. In the meantime, it seemed that the Inuit descendants practiced a semi-formal mixture of Christianity and Inuit spiritual beliefs. They were enthusiastic Bible readers, according to Elders' accounts and the presence of an Inuktitut Bible in the church in William's Harbour. Meanwhile, one Elder recounted to me how her mother sang in Inuktitut and danced around the perimeter of their house whenever her father was to go hunting.

By 1864, however, the Inuit descendants were at least viewed by some as Christianized: "...(the) Esquimaux... are now orderly and industrious Christian people, fruits of the faithful labours of the missionary at Battle Harbour, who has resided eight years on the coast" (Hind, 1863: 198).

The history of the Labrador Metis is not well-known and the definitive account of them has yet to be written (this is true of the Newfoundland Mi'kmaq as well). What is clear is that they represent one form of many forms of Inuitness in the Circumpolar region. The membership of the LIA represents another – both are 'valid', although the use of the term is distasteful. In sum, after the arrival of Europeans (the Moravians in the far north and the European firms and men to the south), two broad groups of Inuit developed. In turn, they made different adaptations to their changing world. In turn, they developed somewhat differently from each other in the post-contact world. But both considerably overlapping societies constitute forms of Inuitness.

It is also worth noting that the perceived strict divide between the Inuit and the Metis of Labrador is a false one. "Inuit" in north coast communities like Postville have relatives in Cartwright and other south coast communities. In some cases, members of the LIA are first cousins to LMN members. Labradorians like Lydia Campbell had descendants on both coasts; in Lydia's case, they currently live in Pinsent's Arm, Charlottetown, Rigolet, and Northwest River. This case is not at all atypical. After all, Labrador in its entirety was the home of the Inuit historically. The current divide is a situation the leadership of the LIA and the LMN may wish to address at some point.

Yet there is a persistent belief that the Metis are not Aboriginal and that their claim to Inuit heritage is specious. This erroneous thinking comes from the fact that the southern Inuit descendants lacked institutions like the Moravian Church to represent them to outside institutions like government. For this reason, they were not viewed as the organized society that they are. This made them invisible to Euro-centric authorities used to dealing with missions and other European institutions.

For much the same reason, the political organizations representing Inuit descendants are in part geographically based. The LIA has five member communities in northern Labrador: Nain, Hopedale, Makkovik, Postville, and Rigolet. These communities are home to many of the LIA's almost 5000 members; the membership includes all resident Inuit and *kablunangajuit* and their descendants. Other Inuit live in the Lake Melville area, especially Northwest River. A minority of Inuit speak Inuktitut – worryingly, the number is only in the hundreds now – but the language remains important to Inuit culturally and emotionally. The LIA has been able to make significant progress in accessing Aboriginal programs and services. It is a member of the Inuit Tapirisat of Canada (ITC), the national political body for Inuit. It has also traveled quite far through the land claim process, as we shall see.

The heart of Metis territory is the south coast of Labrador, from Cartwright to Lodge Bay, the home of the majority of the LMN's 5,000 members. Most residents of this region are Metis, the descendants mainly of Inuit women and their British husbands. This group has suffered a great deal from the lack of access to Aboriginal funding, programs, and services. This is true of Metis all over the country, most of whom are descendants of French men and First Nations women and belong to the Metis National Council (MNC), headquartered in western Canada. The Labrador Metis, however, represent a separate case in that they are Inuit descendants, as we have seen. The LMN has no formal relationship with the MNC and is instead a member of the Congress of Aboriginal People (CAP), a political body for non-MNC Metis and non-status Indians. The term Metis, adopted formally in the late 1970s to abolish the derogatory "half-breed", is unfortunate in many respects. The LMN land claim, for instance, is based on Inuit rights and tenure.

Metis communities have some of the worst infrastructure in the province. Both Norman Bay and Black Tickle suffer the same water access problems that characterized Davis Inlet before the move to Natuashish; homes lack running water and functional toilets. Until a temporary water system was installed in 2002, families had to use shallow community wells, which were frequently contaminated by animal feces, in summer. In winter, they had to travel nine kilometers to Trout Brook, where they cut holes in the ice, or 26 kilometers to Porcupine Bay to get water. In 2000, residents paid $48.70 for 1,000 litres of water – 56 times the cost paid on average by Canadians (Hanrahan, 2000b: 24). Because of this, the Metis of Black Tickle used 112 litres of water per day compared to the Canadian average of 326 litres per day (*ibid*: 23). This has negative impacts on food consumption, given that food is the most elastic part of the family budget; as one woman said, " ...the food part is the one that suffers the most..." (*ibid*: 23).

Even now, not everyone can access the new temporary system and those who can must travel to it and retrieve water in buckets and *komatiks* or ATVs. Houses in Black Tickle are over-crowded and poorly insulated; with a high unemployment rate, many people cannot always afford to heat their homes all the time. With a growing population and poor community infrastructure, their situation is more like other Aboriginal communities in Canada than it resembles rural Newfoundland (see Hanrahan, 2003). In 1999, 79 First Nations reserves in Canada had water systems that were potential health hazards (*ibid*: 32).

Still, the Metis of Black Tickle express a profound attachment to their community and while social problems are in evidence since the cod moratorium that threw everyone out of work, in many respects the community is healthy. For example, almost every student graduates from high school and most go on to post-secondary education. Several students are in nursing programs, for example, and one young woman has recently graduated from an Ontario university with her masters' degree; she has returned to Labrador where she is currently working. This begs the question: if the people of Black Tickle can accomplish this with such restricted access to services, what could they accomplish were they able to access the full range of services for Aboriginal people in Canada?

Aboriginal Organizations in Newfoundland and Labrador

Political Organizations

There are five main Aboriginal political organizations in this province, representing the four Aboriginal nations (the Mi'kmaq are splintered). To varying degrees, these have ongoing relationships with the federal and provincial governments. In addition, there are newer, emerging Aboriginal organizations, whose future it is impossible to predict at this point. Finally, there are two pan-Aboriginal organizations serving all Aboriginal nations.

The Labrador Organizations

The **Labrador Inuit Association (LIA)** represents the Inuit of Northern Labrador and their descendants. The LIA claims a membership of 5,000 and is relatively close to finalizing a land claim agreement with government; this would be the first settled land claim in the province.

The **Labrador Metis Nation (LMN)** represents approximately 5,000 Inuit descendants with roots in Central and Northern Labrador. A small percentage of LMN members are First Nations descendants.

The **Innu Nation** represents the 1,800 or so Innu of Sheshatshiu and Natuashish.

The Newfoundland Organizations

The **Federation of Newfoundland Indians (FNI)** represents non-status Mi'kmaq with roots in Central and Western Newfoundland. Their membership numbers about 4,000. The FNI delivers government-funded programming and is involved in a process with the federal government that may lead to Indian status for its members.

The **Miawpukek Mi'kamawey Mawi'omi** governs the 500 status Indians of Conne River, the province's only reserve, as well as "off-reserve" status Indians in nearby St. Alban's.

The **Sip'kop Band** represents the approximately 500 "off-reserve" status Indians and non-status Indians of St. Alban's; the band aims to function separately from Conne River.

The **Ktaqamkuk Alliance** is a new Mi'kmaq organization headquartered in Western Newfoundland. It represents approximately 2,500 non-status Mi'kmaq, most of whom are former members of the FNI. The Sip'kop Mi'kmaq Band and the Ktaqamkuk Alliance have united to initiate legal action in the Supreme Court of Newfoundland against the Government of Canada. (The federal government's Court Challenges Program – Equality Rights panel – has granted funding for this action.)

Pan-Aboriginal Organizations in the Province

The **Labrador Friendship Centre** in Happy Valley-Goose Bay serves Aboriginal people of all nations who are living in or visiting central Labrador. The Centre has a hostel, a cafeteria, and a crafts shop.

The **St. John's Native Friendship Centre Association** runs a centre in downtown St. John's for Aboriginal people of all nations living in or visiting the capital city. The Association is in the process of constructing a hostel.

Aboriginal Women

Historically, women played central roles in Aboriginal social, cultural, and economic life. Innu women, for example, erected family tents and set up camps throughout *Nitassinan*. Inuit and Metis women made warm clothing and boots from sealskin. In a show of independence, Mi'kmaq women kept their own names upon marriage. In all Aboriginal nations, women were responsible for the primary socialization and identity formation of children; thus, it was women who shaped every generation of Aboriginal people.

Today Aboriginal women are under-represented in the leadership of their political organizations; at present, all the highest offices are held by men. This reflects politics in the province and beyond as a whole; there has never been a female Premier of Newfoundland and Labrador, for example. Aboriginal women are not without role models, though; Katie Riche is the former President of the Innu Nation, while Marilyn John was Chief of Conne River.

In addition, there are women's organizations at the community level – in Sheshatshui, Nain, Natuashish, and other Aboriginal towns. Happy Valley-Goose Bay has at times been home to Aboriginal women's organizations.

Women's life experiences and perspectives are not as visible as those of men's – in both Aboriginal and non-Aboriginal societies. In terms of the literature, the Aboriginal women are under-represented or absent. Anyone researching pregnancy, childbirth, and child-rearing traditions in Aboriginal communities in this province would be hard-pressed to find material. Similarly, there is little information available on Aboriginal women's past and current roles in their families and communities; it is difficult to assess women's status pre-contact as well as in the post-contact period. Female perspectives on Aboriginal community health and priorities is also lacking. The Innu Nation publication, *Gathering Voices* (Fouillard, 1995) is one of the few documents that provides some insight into such perspectives. Another notable exception to the trend is the book, *It's Like the Legend: Innu Women's Voices* (Byrne and Fouillard, 2000). All this is ironic given the fact that the most notable early Aboriginal writers in this province were Metis women, Lydia Campbell (Campbell, 2000, first published in 1894) and Elizabeth Goudie (Goudie, 1973).

A Brief History of Aboriginal People's Relationship with Government

For over 100 years the category of "Indians" (as in 1847) or "Micmac Indians" appeared intermittently in the Newfoundland census. This indicates that government was indeed aware of the Mi'kmaq presence through the island. The authorities also knew there was a relatively large concentration of Mi'kmaq at Conne River. In 1872, the Newfoundland government set aside a reserve following surveys by geologist Alexander Murray. However, plans for the original reserve were never implemented.

After World War II the global map was being redrawn as Britain and other European powers disposed of their colonies and territories. Newfoundland became a province of Canada in 1949; the Terms of Union were the legal agreements that bound the two countries. While the Terms described everything from Canada's transportation obligations in the new province to the colour of margarine, they did not mention Aboriginal people. According to the 1945 Census, there was a significant Aboriginal population in this jurisdiction; there were 701 Eskimos, 527 Halfbreeds, and 431 Indians (Moss, 1988: 1). The presence of Indians was recognized in Newfoundland law, if only through the ban of sale of liquor to Indians (ibid: 7). The omissi appears to be a remarkable oversight, especially given the special status of Aboriginal people elsewhere in Canada. Recent historical research, mainly by First Nations lawyer Jerry Wetzel, describes the process through which this happened.

In 1947, Canadian officials decided that Aboriginal people in Newfoundland would be Ottawa's responsibility, as they were in other provinces, and that the *Indian Act* would apply; this was to be Appendix XI of the Terms (Wetzel, 1999: 24). In 1948, Canadian officials informed the federal Cabinet that there was no Term defining responsibility for Indian affairs (*ibid*); thus, Wetzel refers to Appendix XI as "the Hidden Term". The officials then argued that the *Indian Act* could not be implemented because the Terms did not specifically mention the *Act* (*ibid*). After union, federal officials claimed there had been no final agreement on the relevant Term and said that the Government of Newfoundland had stated its desire to administer Indian affairs, although Wetzel could find no proof of such a preference (*ibid*).

Wetzel notes that the omission occurred as Ottawa was experimenting with the centralization of Aboriginal people. Between 1942 and 1948, the federal government planned to move all the Nova Scotia Mi'kmaq onto two reserves: one in Cape Breton and another on mainland Nova Scotia (*ibid*). Although some Mi'kmaq from rural reserves and from the greater Halifax area were centralized, resistance caused Ottawa to abandon the scheme. Almost concurrently – from 1946 to 1949 – a Special Committee of the Senate and House of Commons on the *Indian Act* recommended the assimilation of Canada's Indians and the removal of the status they had under the *Act* (*ibid*). Thus, the omission of Aboriginal people from the Terms of Union likely reflected this policy thrust. In 1949, a federal Interdepartmental Committee on Newfoundland Indians and Eskimos (ICNIE) decided not to exercise Canada's fiduciary responsibility to the province's Inuit, Innu, Metis, and Mi'kmaq people (*ibid*).

Newfoundland was unique in Canada in having administrative and legislative control over its Aboriginal population. This became policy in 1965 when Prime Minister Pearson formalized the practice (*ibid*: 26). The year before, Premier Joseph Smallwood had urged Ottawa to assume full federal responsibility for Aboriginal affairs in this province or extend financial support to the province at the same level provided Aboriginal people in other provinces (Moss, 1988: 9).

In institutionalizing this policy, Pearson ignored his own government's legal opinions that stated Aboriginal people in Newfoundland were a federal responsibility, as they were elsewhere in the country. The result of Pearson's decision was the Federal-Provincial Agreement for Financial Assistance to Native Communities in Newfoundland and Labrador, a cost-sharing agreement that was renewed every five years. Prior to this, Ottawa's only specific funding for the province's Aboriginal people came in the form of subsidies for tuberculosis services in communities in which the province operated stores. Even after 1965, the Aboriginal people received far less than their counterparts elsewhere in Canada in terms of programs and services. Some Aboriginal communities, mostly Mi'kmaq and Metis, received nothing at all.

Over the years, Canadian and Newfoundland leaders offered several reasons for the omission:

- the Mi'kmaq and Innu did not live on reserves;
- Newfoundland's Aboriginal people were enfranchised (meaning they could vote, unlike Inuit and on-reserve First Nations people in Canada);
- the Newfoundland Mi'kmaq and other Aboriginal peoples were only "small groups"; and,
- the provincial government wanted to administer Aboriginal affairs (see Wetzel, 1999; and Moss, 1988).

The claim that the province wanted to administer Aboriginal affairs is meaningless; no other province was ever given the option to do so, given Canada's fiduciary relationship to Aboriginal people and federal jurisdiction over Aboriginal issues. Whenever other territories had joined Canada, Ottawa had made treaties or other arrangements with the relevant Aboriginal nations, set aside reserves, enforced the *Indian Act*, and began providing programs and services. This did not happen in Newfoundland. According to one legal opinion, because of the omission from the Terms of Union, s. 91 (24) of the Canadian constitution makes Aboriginal matters in Newfoundland and Labrador federal jurisdiction – as in the rest of the country (Moss, 1988: 2). Further, S. 91 (24) of the Constitution articulates the fiduciary responsibility of the federal government for the First Nations, Metis, and Inuit peoples of Canada.

Until 1951 in Canada, an Indian was someone reputed to be an Indian or the descendant of such a person, except the descendant of an Indian woman and a non-Indian man (Tanner, 1979: 1). In 1951, the *Indian Act, Chapter 149* was enacted and, although no part of the country was exempt from the *Act*, it was not enforced in Newfoundland and Labrador (Moss, 1988: 24). Status was one of the legal bases that could be used to make Canada live up to its legal and moral obligations to First Nations people (Tanner, 1979: 5). Without application of the *Act*, Newfoundland and Labrador's First Nations simply did not exist on paper. Thus, there was – and still is for many Mi'kmaq – no way to make Canada fulfill its fiduciary obligations to them.

In doing ethnographic research for the Sip'kop Mi'kmaq of St. Alban's in 2001, I found that they were not consulted during the time leading up to Newfoundland's union with Canada (see Hanrahan, 2002a). No one from the Newfoundland or Canadian governments visited or corresponded with them on the subject of Aboriginal matters. During my fieldwork in Labrador, Innu and Metis Elders said they had not been consulted either. They had no input into the Terms of Union and were not involved in any discussions of Appendix XI, the *Indian Act*, or Newfoundland's alleged wish to control Aboriginal affairs. In fact, they were not even aware of the *Indian Act* and what it meant; most reported that they had not even heard of it until the 1980s (see *ibid*). They were not told of their inherent rights as Aboriginal people. Some Sip'kop Elders did not even hear of the *Indian Act* until the 1980s when the Mi'kmaq had organized and were campaigning for status.

In 1951, the Government of Canada carried out a national census to identify all Indians for the purpose of registration under the *Indian Act*. This was also when band lists were introduced. Significantly, though, Newfoundland was omitted from this census. When the *Indian Act* was amended in 1960 to allow registered Indians (and Inuit) to vote, neither Canada nor Newfoundland re-considered the situation of the province's Aboriginal peoples. The concern of both the federal and provincial governments was to avoid funding and legislative arrangements that would differentiate the province's Aboriginal people from other residents of the province (Moss, 1988: 13). It would be some time before the assimilation thrust would be discredited in favour of cultural survival for Aboriginal people (the 1969 federal government White Paper that recommended the elimination of special status for Aboriginal people was met with fierce resistance, including the publication of Harold Cardinal's Red Paper, which helped spur the establishment of Aboriginal organizations across the country).

The unique arrangement in Newfoundland and Labrador was not unopposed in the province. Most notably the 1974 Royal Commission on Labrador recommended some major changes including:

- an end to the practice of limiting federal assistance to certain communities, given its unfairness to the Aboriginal population as a whole;
- the adoption of a different per capita funding arrangement that would better reflect the high costs of providing services;
- the extension of federal Aboriginal programs elsewhere to Newfoundland and Labrador; and,
- an end to the requirement that the province pay a portion of the costs for services to Aboriginal people (see Newfoundland, 1974; and Moss, 1988).

In fact, it was not until 1986 that a reserve established at Conne River (registration under the *Indian Act* took place in 1984). This event followed a long political struggle on the part of Mi'kmaq throughout Newfoundland, which included occupation of government offices and a hunger strike. Chief Michael Joe described his people's rationale: "We are prepared to give up our lives if necessary. If that's what it takes to get both the federal and provincial governments to respect the rights we have to govern ourselves and to live in dignity as Micmac Indians" (O'Hearn, 1983: 2).

After Conne River became a reserve, however, most Newfoundland Mi'kmaq still remained outside the *Indian Act*, even some who lived near the community. Indeed, for a variety of reasons, mistrust of government was general among the Mi'kmaq population. As one of their family members explained: "A lot of them in St. Albans threw their invitations to meetings away. They were afraid. There were frightened to death they'd have to move their houses across the bay (to Conne River). No one explained to them what it was all about. Nobody from (the Department of Indian Affairs) ever talked to them" (Hanrahan, 2002a: 24).

In a report on the Newfoundland Mi'kmaq for the Canadian Human Rights Commission, law professor Noel Lyon concludes that "the Mi'kmaq communities have been denied recognition as human communities and their fundamental right of self-determination the very foundation of international human rights law, has been systematically suppressed" (Lyons, 1997: 1).

In contrast, Mi'kmaq in Nova Scotia, New Brunswick, and Prince Edward Island had come under the jurisdiction of the federal government with the establishment of the Canadian Confederation in 1867. The Nova Scotia Mi'kmaq who had survived the bloody post-contact period were eventually granted reserves, albeit with inadequate land bases. Some Mi'kmaq groups were eventually awarded compensation for the theft of their lands. In Nova Scotia, the Wagmatcook First Nation won 1.2 million in 1993 while the Pictou Landing First Nation got $35 million (Miller, 1995: 371).

The Implications of the Omission of Aboriginal People from the Terms of Union

Government-Aboriginal relations in Canada are a patchwork quilt; there are many kinds of arrangements, degrees of self-government, etc. At present in Canada there are more than 80 ongoing negotiations on self-government, at varying stages. Some of these negotiations are bilateral; others involve provincial as well federal governments. However, the Aboriginal people of this province are among the most marginalized Aboriginals in Canada, especially the Labrador Metis and most Newfoundland Mi'kmaq.

The most progressive arrangements are in Saskatchewan, spearheaded by the Federation of Saskatchewan Indian Nations (FSIN), the country's oldest and (many believe) best-organized Aboriginal organization. The FSIN currently leads self-government negotiations on behalf of 72 First Nation communities, all of which are reserves with status Indians. Saskatchewan is also home to Canada's only degree-granting Aboriginal educational institution, the Saskatchewan Indian Federated College (SIFC). Recently the SIFC partnered with the Universities of Regina and Saskatchewan to establish a $2 million Indigenous People's Health Centre.

Other arrangements favorable to Aboriginal people are happening closer to home. In December, 1998 the Nova Scotia legislature passed the *Micmac Education Act*, which gives legislative and administrative control to nine First Nations. Nova Scotia also has an annual Treaty Day, on which the province and Mi'kmaq communities celebrate their nation-to-nation relationship.

Many of these programs and projects have positive economic effects. One such program is the National First Nations Environmental Contaminants Program (NFNECP), run by Health Canada and the Assembly of First Nations. NFNECP was begun in 1999 to encourage First Nations-initiated research on environmental contaminants due to industrial activity such as mining. The following are some examples of recent participating projects:

- Nay Yun Nzoo Environmental Contaminants (mainly mercury pollution due to mining; Nak'azdli Band Council, B.C., and Matikmekush-Lac John Innu Nation, Quebec;
- Environmental Clearinghouse, Mohawk Council of Kahnawake, Quebec;
- Development of Community Health Indiscators, Mohawk Council of Akwesasne, Quebec and Ontario;
- Northern River Basic Food Consumption Survey, Treaty 8 First Nations of Alberta; and,
- Tl'azt'en Nation Cancer Research, B.C..

The NFNECP program is a partnership of the AFN (Assembly of First Nations, the national body that represents status Indians) and Health Canada. In Newfoundland, only Conne River has enjoyed full participation in the AFN. When I asked one of the project managers in Ottawa if the other (non-status) First Nations in Newfoundland and Labrador could apply for funding under the NFNECP, she was uncertain. She said that several projects in the Atlantic Region were funded – though none of these are in Newfoundland and Labrador.

Three problems are in evidence here. One is the concept of Atlantic Canada. In most cases, the federal government divides the country into the following regions for Aboriginal programming: Territorial, Pacific, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Atlantic. This province is considered as "covered off" whenever projects in the Atlantic region are funded. In other words, if projects or programs go ahead in Nova Scotia and/or New Brunswick, they are considered to cover the whole region – even though Aboriginal people in Newfoundand and Labrador do not participate or benefit in any way.

A second problem is the lack of official status of most of Newfoundland and Labrador's First Nations. This lack of status means that these bands have little or no operational funding and no or at best few staff, and thus are in no position to even develop proposals to apply for programs like this one.

Finally, because of their lack of status, many Aboriginal communities in this province are simply ineligible for federal programs, services, and funding. This is because federal departments in general restrict their Aboriginal programs and services to Inuit and on-reserve First Nations; the assumption is that provincial governments will assume financial responsibility for off-reserve status Indians (see Moss, 1998: 6). Obviously, the Newfoundland situation is an anomaly here with the result that Newfoundland Mi'kmaq are usually left out. The Labrador Metis, who are Inuit descendants, are disadvantaged as well.

The list of programs for which most of Newfoundland's First Nations as well as the Labrador Metis Nation are ineligible to apply for is long. (Note that, in addition to Conne River, the LIA and the Innu Nation are able to participate in these programs and others like them.) Under the aegis of INAC the list includes (but is not limited to):

- Adult Care Program
- Children's Program
- Community Infrastructure and Housing
- Family Violence Prevention Program for First Nations
- First Nations Child and Family Services Program
- Justice Program

Under Health Canada the list includes (but is not limited to):

- Nursing in First Nations Communities
- National Native Alcohol and Drug Abuse Program
- First Nations and Inuit Home and Community Care
- Framework for Injury Prevention and Control
- Non-Insured Health Benefits

These programs recognize Aboriginal communities' stated wish to build community capacity and return to self-sufficiency. They are an indication that the federal government has some respect for the nationhood of the First Nations and Inuit communities in which the programs are located. This in itself likely has a positive impact on the collective psychological health of these nations. Although not without problems, these programs and services inject monies into Aboriginal communities, create meaningful employment, and help improve community health in its broadest sense. Further, based on my experience working with Aboriginal people in Ontario and Saskatchewan, it appears that these and other programs are taken for granted in Aboriginal communities elsewhere in Canada – while they are absent in many Aboriginal communities in this province.

What's Possible: the Examples of Conne River and the LIA

Conne River is the only Mi'kmaq community in Newfoundland to access the range of programs and services available because of registration under the *Indian Act*. As we have seen, many programs and services are aimed at people living on reserve; hence, Conne River's eligibility. One such program is Aboriginal Head Start on Reserve, which has the goal of preparing young children for their school years by providing for their emotional, social, health, nutritional, and psychological needs.

As of December, 2000, 168 operational Aboriginal Head Start on-reserve projects were funded across the country totaling about $23 million (www.hc-sc.gc.ca/fnihb-dqspni/fnihb/cp/annualrewview/ahs.htm). There were 16 projects in the Atlantic region, only one of which was in Newfoundland – at Conne River. With more than a dozen Mi'kmaq communities (similar to the number in Nova Scotia), the case can be made that the province is under-represented and under-serviced in terms of this program. Note that PEI was funded for two Aboriginal Head Start programs, because First Nations people in that province are recognized under the *Indian Act* and have reserves. This happens repeatedly with programs and services. (Later, two projects were funded in Labrador – in Hopedale, Sheshatshiu, and Happy Valley-Goose Bay, but none on the island or in Labrador Metis communities.)

Human suffering is frequently the result. In 1997, Sip'kop (St. Alban's) Mi'kmaq Elder Lawrence Benoit, who is now deceased, told a reporter how he was impacted by the lack of health services. At 84, he lived in a dilapidated one-bedroom house, was wheelchair-bound, and required 24-hour home-care. The province's Department of Social Services provided only some care during the day and none at night, which was inadequate for his needs. Referring to the contrasting situation of registered Indians in nearby Conne River, he said: "They tell me I could get 24-hour care if I was a status Indian living on reserve. I've always been an Indian. Grew up in wigwams and lived off the land with my family" (Hilliard, Aug. 25, 1997: 2).

Meanwhile, Conne River has become a model reserve in the forefront of the First Nations self-government movement. The Miawpukek band was the first Mi'kmaq band to negotiate a direct funding agreement for community and economic development, education and health programs in 1985. The band has generated meaningful jobs for its members and has experienced very little unemployment since gaining reserve status. Indeed, it is not much of an exaggeration to say that Conne River is the economic engine of Bay d'Espoir, given the depression experienced in surrounding communities due to the decline of resource industries. In Conne River, incomes have been raised and post-secondary education has been funded.

In 1996, Miawpukek (Conne River) Health and Social Services had 22 in-office staff and 11 outreach and after-hours staff (Miawpukek Human Services Consulting *et al*, 1996). Areas of focus include:

- individual and environmental health;
- child welfare;
- alcohol and drug addiction;
- special needs;
- financial assistance;
- nutrition;
- home care;
- mental health;
- family violence; and,
- diabetes.

All this represents a radical change from Conne River's historical position as a poverty-stricken community. Across the bay in St. Alban's, the Sip'kop Band, made up of "off-reserve" members of Miawpukek even though they have never lived there, enjoys excellent relations with the town council and other community organizations. Indeed, seeing the economic benefits that accrue to status Indians, the town council is supportive of the Sip'kop Band's attempts to be recognized as a stand-alone band, separate from Conne River. This good relationship characterizes most town councils in Newfoundland that have First Nations within their borders.

Because it is recognized as Inuit, the Labrador Inuit Association has been able to develop considerable infrastructure to serve its members. The LIA's economic arm, the Labrador Inuit Development Corporation (LIDC) operates the following while creating meaningful jobs for Inuit:

- Ten Mile Bay Quarry;
- Pikalujak Fisheries Ltd.; and,
- Pan-Arctic Inuit Logistics Inc. (the operation and maintenance of the north warning radar system, which is 20 per cent owned by the LIDC).

The LIA also responds to the needs and aspirations of its members through the Labrador Inuit Health Commission and the Torngasok Culture Centre.

As they got closer to real recognition, the Innu have also been able to develop infrastructure, though not to the level of status Indians. The other Aboriginal groups in the province – the Metis and the FNI Mi'kmaq – lag far behind. The chief of one Mi'kmaq band works on the mainland and tries to spend time in his home community. Meanwhile, the band executive borrows town hall space for meetings. The Mi'kmaq of the FNI have had to be extremely patient since Confederation (see Appendix 2 for a Selected Chronology of Events). Last year they entered into another process with the Governments of Canada and Newfoundland and Labrador. This consists of non-binding, exploratory discussions to determine if there is a basis for negotiating FNI access to certain programs and services.

The Metis, too, are seriously hampered in terms of infrastructure. In addition, they have had to contend with pressure from both the Aboriginal and non-Aboriginal worlds. Although relations with the provincial government have improved very recently, the LMN is not generally consulted on developments in their territory. Frequently, they are left out of initiatives that include the Innu and the Inuit, their neighbors and cousins (sometimes literally) in Labrador. They are not party to the Voisey's Bay Impacts and Benefits Agreements which provide targets for Innu and Inuit employment as well as commitments to train and employ Innu and Inuit men and women.

On the other hand, the resiliency of the province's Aboriginal people is remarkable. With virtually no resources, the Innu, Inuit, Metis, and Mi'kmaq have somehow ensured that the vitality of their culture continues. Mi'kmaq communities, for example, support dance troupes, continue to press for the introduction of their language into schools, operate band councils from funds raised from card games, and collect money to litigate through tithing. As we have seen, the Canadian Human Rights Commission (CHRC) concluded that the Newfoundland Mi'kmaq have been denied their rights as human communities (Lyons, Oct., 1997: 1).

What would be the result if the energies used to pursue the barest modicum of services for Aboriginal people in Newfoundland and Labrador had been freed up? Although it is difficult to say, the example of Conne River provides some answers. As we have seen, local leaders have been able to implement programs and services leading to improved social and economic conditions in the community and, undoubtedly, better community health.

Though some Mi'kmaq groups are litigating, no amount of compensation can make up for more than half a century of assimilationist policies and neglect. As noted in the CHRC report, time works on the side of the Canadian government, as Elders die and pressures to assimilate increase. There is no way to measure the losses that Newfoundland's Aboriginal people have suffered as a result of not being included in the Terms of Union.

Land Claims

Understanding Land Claims in Canada

Comprehensive land claims are based on the assertion of continuing Aboriginal title to lands and natural resources. They are made in places where Aboriginal people did not surrender land or sign treaties. Newfoundland and Labrador is one such place. The land claims process involves Aboriginal nations and the federal government. Most of the comprehensive land claims in Canada are in British Columbia, while others are in Newfoundland, Quebec, the Yukon, and parts of the Maritimes (Specific land claims refer to situations in which the federal government is accused of not honoring its treaties or legal responsibilities vis-a-vis certain land, such as the illegal sale of a First Nation's land. Most land claims in Canada are specific; there have been 900 since 1972, 200 of which have been resolved. There are none of these in Newfoundland and Labrador).

Comprehensive land claims are based on traditional land use and occupancy, which can be difficult to prove in the absence of written records. The comprehensive land claim process is also controversial because settlement requires the extinguishment of Aboriginal title. This disturbs Aboriginal people because of their special relationship to the land, handed down from their ancestors as their chief legacy. Finally, the process is viewed as flawed because the federal government acts as both defendant and judge. Two well-known comprehensive claims are that of the Nisga'a of British Columbia (who were granted nine per cent of the territory they claimed) and the Inuit of Nunavut.

The rights and benefits of comprehensive land claims usually include:

- full ownership of certain lands in the area covered by the settlement;
- wildlife harvesting rights;
- participation in resource management throughout the settlement area;
- financial compensation;
- resource revenue-sharing;
- economic development measures; and,
- a role in the management of parks and heritage resources in the settlement area.

While this list looks attractive, it is extremely difficult to successfully negotiate a land claim. First of all, only 60 per cent of all land claims are accepted for negotiation. In cases of resolution, Aboriginal groups get an average of about 10 per cent of the land and financial compensation claimed. In addition, the process is lengthy, usually lasting more than two decades. The LIA, for example, submitted its claim in 1978 and, while much progress has been made, finalization has yet to occur. A decade after the submission of the LMN claim, there has been no final decision on whether it will be accepted for negotiation.

Land Claims in Newfoundland and Labrador

There are a total of four outstanding land claims in Newfoundland and Labrador filed by the Inuit, the Innu, the Metis, and the Conne River Mi'kmaq. These are in various stages. A review of the land claims history of Newfoundland and Labrador reveals a pattern of delay, forcing Aboriginal groups to prove their Aboriginality, and rejecting claims. The delays are worrying; oral history is crucial to land claims and as time passes, Aboriginal Elders die.

The Innu Nation's claim was filed in 1977 and accepted for negotiation the next year. It has been in on-and-off negotiations for the past 13 years. Land rights, as the Innu refer to their land claim, is central to the objectives of the Innu Nation. The Innu relationship to the land is mandated by *Tshishe-Manitu*, the Creator; the Innu are charged with taking care of the land, which will in turn provide them with animals, the means to sustain themselves. The transformation of the land that has occurred under the Newfoundland and Canadian governments is entirely against the Innu ethos and is psychologically as well as materially threatening to the Innu. In the words of Nympha Byrne, a Mushuau Innu activist and writer, "...the land is hurting right now. To me the land is like my grandmother" (Byrne and Fouillard, 2000: 262). According to Mailhot, "Their territory is the Innu's entire heritage. It is all they possess, all they have been bequeathed by their ancestors" (Mailhot, 1997: 167).

The Innu Nation's concern is that while Innu land rights remain unresolved, much development is occurring on Innu land. This includes hydro-electric development, military low-level flying, forestry, and mining activity. Without a settled land claim, Innu are not guaranteed a real say in the direction and pace of these developments. Given their view of themselves as a colonized people, continuing industrial development in Labrador without a settled land claim is dispiriting to the Innu.

The FNI has not filed a land claim as yet, although they were given some funding to do land claims research. The Conne River land claim has had a particularly difficult time; for this reason, it is worth looking at it in some detail here. In 1975, the *Ktaqamkuk Ilnui Sagimawoutie* (the Newfoundland Indian Government) presented a proposal to the federal government to do research in support of Mi'kmaq Aboriginal title in Newfoundland. They were successful in getting funding for research. They submitted preliminary data the next year but Ottawa's response, which came in 1978,was to fund more research, saying that that already done was insufficient to establish the case for a land claim. The *Ktaqamkuk Ilnui Sagimawoutie* made another submission in 1979 and again Ottawa judged it to be insufficient while funding more research. The next submission, in 1981, got the same response. In 1982, *Ktaqamkuk Ilnui Sagimawoutie* filed a land claim to approximately one-third of the island, mainly the south coast, including the Burin Peninsula. The claim was filed on behalf of 1,400 people of Mi'kmaq descent, about 800 of whom lived in Conne River (Pitt, 1981: 507). Ottawa judged the claim to be "not satisfactory" and stated that it could not be accepted as a comprehensive claim.

In a move unprecedented in Canada, Premier Brian Peckford announced the provincial government's rejection of the land claim (Wetzel, 1995: 329). He said that Newfoundland would not negotiate a Mi'kmaq land claim since "Aboriginal land use and occupancy of the south coast of Newfoundland by the Micmacs has not been substantiated" (*ibid*: 332). Two years earlier, Peckford had written to Indian Affairs Minister John Munro to say that "registration (of the Newfoundland Mi'kmaq) would not be in the best interests of the Province or the particular groups involved" (*ibid*: 331).

A break for the Mi'kmaq seemed to come in 1982 when a senior federal government official rendered a legal opinion that stated " ...the Micmac occupancy (of Newfoundland) was a fact in the area of Placentia (from 1660) by the time of the Treaty of Utrecht and at St. George's Bay later in the same century" (*ibid*). But nothing came of this and the Conne River Chief again began lobbying Ottawa for a favorable response. He was disappointed when in 1986 Indian Affairs Minister Bill McKnight decided that "historical and legal arguments ...do not prove that the Micmac enjoyed exclusive use and occupancy over any part of the island of Newfoundland since 'time immemorial', nor prior to ...European settlement" (*ibid*: 337). Thus, the claim was rejected.

In 1994, however, Conne River was granted funding to do more land claims research. Thus, the door is never closed, although Aboriginal people have found the process to be frustrating, cumbersome, and inherently unjust given the power of the federal government. In 1996, more than 20 years since they began working toward a land claim, Conne River was informed that its land use and occupancy data was inadequate and more money was provided for further research. Many Aboriginal people find it difficult not to be cynical about a process in which resolution is so elusive.

The Labrador Metis Nation has also had a challenging time with its land claim, funded and filed in 1991. In 1998, the Department of Justice recommended that the Government of Canada reject the claim. Since then, however, Canada and the LMN have entered into a reconciliation process. New research has been funded and the federal government is currently reviewing new material that might lead to a reconsideration of this decision. The LMN is concerned that development has occurred in its territory while its land claim is outstanding; this includes the construction of the Trans-Labrador Highway and logging due to the current lack of forestry resources on the island.

The Labrador Inuit have enjoyed the most success in the area of land claims in this province. Filed in 1978, their claim was accepted for negotiation the next year. In 2001, INAC Minister Robert Nault, Premier Roger Grimes, and President William Barbour of the LIA signed an Agreement-in-Principle. Its highlights include:

- 28,000 square miles of land and 12,000 square miles of ocean extending 12 miles offshore (Labrador Inuit Settlement Area, LISA);
- 6,100 square miles within the LISA designated as Inuit lands under the Inuit Central Government (LIL);
- establishment of the Torngat Mountains National Park Reserve (about 3,000 square miles);
- within the LIL, exclusive rights to carving stone and 25 per cent of provincial revenues from subsurface resources;
- three per cent of provincial revenue from Voisey's Bay mine resources;
- wildlife and plant harvesting rights; and,
- $140 million in compensation from the Government of Canada

Much of this appears to be favorable to Inuit. However, the planned LISA is much smaller than the traditional territory of the Labrador Inuit. In addition, Inuit will remain subject to tripartite financing arrangements and to federal and provincial tax laws. Further, the Minister of Fisheries and Oceans retains overall responsibility for fish resources in the LISA.

Yet land claims represent the best hope for Aboriginal people as settlements restore some measure of the sovereignity and self-government that was so painfully lost. Land claims offer real possibilities for prosperity. Their resolution, particularly self-government, is also positively linked to community health, as we shall see in the next section.

Finally, it should be noted that overlapping Aboriginal land claims, such as those in Labrador, are not unusual in the Canadian context. Elsewhere in the country, overlapping land claims have been settled, as have claims in which occupancy since "time immemorial" have not been established (eg. that of the Dene Metis in the Northwest Territories).

The Way Forward

Lessons from British Columbia

A five-year British Columbia study of 196 First Nations communities attempted to identify what factors protected against youth suicide in these communities; suicide rates from one First Nation to another varied widely (Chandler and Lalonde, 1998). The researchers found that certain markers were associated with a clinically important reduction in the youth suicide rate. These were:

- land claims;
- self-government;
- education services;
- police and fir services;
- health services; and,
- cultural facilities.

Notably, the five-year suicide rate fell to zero when all six protective factors were in place in a community. Conversely, communities lacking these protective factors had suicide rates that were five to 100 times the British Columbia average. Self-government emerged as the strongest hedge against suicide; self-governed communities had 102.8 fewer suicides per 100,000 youth than those without it (*ibid*: 204). Given the wide range of Aboriginal cultural groups in B.C. and their similar colonial history to Aboriginal nations elsewhere in Canada, it is probable that these findings have some relevance to this province.

Lessons from the Harvard Project

The ongoing Harvard Project on American Indian Economic Development was founded in 1987 and is housed in the John F. Kennedy School of Government at Harvard University. The project uses applied research to identify and foster the conditions that lead to sustained social and economic development in Native American communities. Like the B.C. study cited above, much of the research of the Harvard Project is comparative: What works? Where? Why? A vast amount of research has been generated through the project, leading researchers to conclude that the most important determinants of successful social and economic development in Native American communities are:

- Sovereignty: when Aboriginal leaders make their own decisions about resource and economic development and administration of services, they consistently out-perform non-Aboriginal decision-makers;
- Institutions: Aboriginal communities do well when there are stable political institutions and policies, justice dispute resolution mechanisms, capable bureaucracies, and Aboriginal-designed strategic plans; and,

- Culture: the existence of cultural institutions that reflect an Aboriginal nation's unique cultural values has positive impacts on resource management and the quality of housing (see www.ksg.harvard.edu/hpaied/index.htm).

Conclusion and Recommendations

Aboriginal nations in this province are forced to play catch-up to their counterparts elsewhere in the country in a range of areas – from health and education services to land claims. This is challenging but by no means impossible. It should be made easier with a supportive provincial government. Indeed, it is obvious that stronger Aboriginal communities would lead to a stronger province, especially in rural Newfoundland and Labrador. The positive social and economic impacts of the Conne River reserve on Bay d'Espoir proves this.

The following list of recommendations is not exhaustive but reflects some of the more pressing concerns and needs of the Aboriginal people of Newfoundland and Labrador. It is hoped that these will serve as a springboard to processes that will bring about justice for the Innu, Inuit, Metis, and Mi'kmaq of Newfoundland and Labrador.

General Recommendations

The Royal Commission should recommend that:

1. The Aboriginal peoples of Newfoundland and Labrador constitute nations consisting of people holding Aboriginal rights. Therefore, the Royal Commission should recommend that the Province officially recognize all the Aboriginal nations of Newfoundland and Labrador: the Innu; the Inuit; the Metis; and the Mi'kmaq, both status and non-status. It should also recognize their political organizations.
2. The federal government has been slow to enact programs and services for the province's Aboriginal people and to fully engage in the land claims process, at least partly because of provincial opposition to Aboriginal people's aspirations. Therefore, the Royal Commission should recommend that the Province meet with INAC, Health Canada, and Newfoundland and Labrador's representative in the federal cabinet to communicate its official recognition of and support for the province's Aboriginal peoples.
3. Research from elsewhere (eg. the Harvard Project) points to the importance of strategic planning. Therefore, the Royal Commission should recommend that the Province should commit to and work with all the Aboriginal nations of the province to develop strategic plans aimed at the achievement of goals identified by Aboriginal leaders and their communities.
4. For many years, the Newfoundland Mi'kmaq were misrepresented in the school curriculum. Further, students today learn little about the province's Aboriginal people, who have played significant roles in Newfoundland and Labrador history. Therefore, the Royal Commission should recommend that the Province:

- conduct a review of the school curriculum's coverage of Aboriginal issues; and
- revise the curriculum to reflect the latest knowledge of Aboriginal issues, including Aboriginal people in curriculum development.

5. Research has shown that there is a lack of culturally appropriate programs and services for Aboriginal people in this province (eg. adequate language interpretation services for Inuit and Innu in hospitals). Therefore, the Royal Commission should recommend that the Province review its programs and services to ensure that they are adaptable to the needs of Aboriginal people.
6. The Province and its Aboriginal people have had a relationship that is characterized by frequent conflict and a lack of cooperation; meanwhile, we all lose when Aboriginal perspectives are not included in policy development and decision-making. Therefore, the Royal Commission should recommend that the Province encourage the involvement of Aboriginal people in policy development and decision-making by hiring Innu, Inuit, Metis, and Mi'kmaq to work at the Department of Labrador and Aboriginal Affairs and other government departments and agencies.
7. There are many misunderstandings between the provincial government and Aboriginal people, and even between Aboriginal nations themselves. Dedicated communication is the key to moving forward on issues of importance to the province and Aboriginal nations. In addition, the people of the province would be well served by more education on Aboriginal issues. Accordingly, the Royal Commission should recommend that the Province establish and fund an annual Symposium on Aboriginal Issues to be held in rotating Aboriginal communities (or nearby service centres). Symposium participants would include Aboriginal leaders and other Aboriginal people, students, government officials, the media, and members of the general public. Such a groundbreaking process would be unique in Canada.
8. The voices of Aboriginal women are seldom heard, as seen in the dearth of literature on Aboriginal women's issues and the very limited involvement of Aboriginal women in the leadership of their organizations. (This corresponds to the status of women throughout Newfoundland and Labrador.) Accordingly, the Royal Commission should recommend that the Province include the formation of an Aboriginal women's caucus at the Symposium; this caucus should be funded to ensure that Aboriginal women's concerns are highlighted and addressed in ways identified by Aboriginal women.
9. The pan-Aboriginal organizations in this province suffer from financial uncertainties; unlike their counterparts elsewhere in Canada, they have smaller urban Aboriginal populations from which to raise funds, and federal funding is variable. Yet they deliver important services that increase the quality of life for Aboriginal people temporarily or permanently living in urban areas. Therefore, the Royal Commission should recommend that the Province offer annual operating grants that are as generous as possible to the Labrador Friendship Centre and to the St. John's Native Friendship Centre Association.

Specific Recommendations

There are clear disparities between Aboriginal nations and communities in this province, with no valid rationale for these disparities. In addition, strengthening Aboriginal communities in various ways would strengthen the provincial community as a whole. Finally, the relationship between the provincial government and Aboriginal peoples needs mending in a number of areas. Accordingly, the Royal Commission should recommend that the Province:

10. Support all the Mi'kmaq people of Newfoundland in their quest for registration under the *Indian Act*.
11. Work with the FNI, Ktaqamkuk Mi'kmaq Alliance, and the Sip'kop Mi'kmaq Band to develop provisions for Mi'kmaq living outside designated FNI communities, including the court case of the latter two groups.
12. Encourage federal recognition of the Sip'kop Mi'kmaq Band of St. Alban's as a stand-alone band (separate from Conne River, an hour away and a different community);
13. Encourage Voisey's Bay Nickel Company to extend impacts and benefits to the Labrador Metis.
14. Formally request that the federal government extend its programs and services to the Labrador Metis and to Mi'kmaq living outside Conne River (eg. Health Canada's Non-Insured Health Benefits Plan).
15. Undertake infrastructure developments in Metis communities, specifically water access and housing.
16. Adopt a formal policy of facilitating the participation of the Innu, the Inuit, and the Metis in all proposed developments in Labrador.
17. Formally and publically apologize to the former residents of Hebron, the relocated Inuit community in Northern Labrador.

Land Claims

Most Aboriginal leaders feel that land claims offer some promise of restoring the independence and self-sufficiency that was lost after the European invasion. Therefore, the Royal Commission should recommend that the Province:

18. Support federal government acceptance of the Labrador Metis Nation land claim for negotiation.
19. Support federal government acceptance of the Conne River land claim for negotiation.
20. Take measures to facilitate the timely resolution of the Labrador Inuit Association land claim.
21. Take measures to facilitate the resolution of the Innu Nation land claim.

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Appendix 1
Aboriginal Communities in Newfoundland and Labrador

INNU:

Davis Inlet/Utshimassits, Labrador (Residents are in the process of moving to the new community of Natuashish, which will be a reserve under the *Indian Act*)

Sheshatshiu, Labrador

INUIT:

Nain, Hopedale, Makkovik, Postville, Rigolet, Labrador

Some Inuit also live in the Lake Melville area, particularly Northwest River

METIS:

Black Tickle
Cartwright
Paradise River
Charlottetown
Pinsent's Arm
Norman Bay
William's Harbour
Post Hope Simpson
St. Lewis (also known as Fox Harbour)
Mary's Harbour
Lodge Bay
Many Metis live in the Lake Melville area, in Happy Valley-Goose Bay, Northwest River and Mud Lake.

MI'KMAQ:

Miawpukek First Nation, the Conne River reserve (and St. Alban's, where "off-reserve" members live)

The following communities are under the umbrella of the Federation of Newfoundland Indians (FNI):
  Bartlett's Harbour
  Benoit's Cove
  Corner Brook
  Port-au-Port East
  St. George's
  Stephenville/Stephenville Crossing (all in Western Newfoundland)
  Exploits
  Flat Bay
  Gander Bay
  Glenwood (all in Central Newfoundland)

Appendix 2
Chronology of Selected Events

1867: the *British North America (BNA) Act*, s. 91 (24) gives the federal government jurisdiction over "Indians and lands reserved for Indians".

Prior to 1949: there is no government department of agency responsible for Aboriginal affairs in Newfoundland; there is no concept in government or in law of Aboriginal rights for First Nations, Inuit or Metis.

1949: there is no mention of Newfoundland and Labrador's Indigenous people in the Terms of Union between Newfoundland and Canada; no application of Canada's Indian Act; provincial laws and regulations apply to Inuit, Innu, Metis, and Mi'kmaq.

1951: A national census of Aboriginal people is held – Newfoundland is excluded. Canada introduces the concept of band lists and establishes *Indian Act* bands.

1954-1964: There is a series of Canada-Newfoundland Agreements. Funding is transferred from Canada to the provincial government for "Aboriginal" components of programs and services, although there is no guarantee it would be used for this purpose. Aboriginal people in Newfoundland and Labrador do not receive funding at levels of First Nations elsewhere and do not have access to an equivalent range of programs and services.

1960: Aboriginal people in Canada are fully enfranchised. There is no revisiting of the Newfoundland and Labrador situation.

1965: Canadian policy towards Aboriginal people in Newfoundland and Labrador is further formalized through the Federal-Provincial Agreement for Financial Assistance to Native Communities in Newfoundland and Labrador. Prime Minister Pearson proposes to Cabinet that the Government of Newfoundland and Labrador have the authority to legislate over, administer, and manage the affairs of the province's Indian and Inuit peoples, making the province unique in Canada in this respect.

1969: Federal government *White Paper* recommending assimilation of Aboriginal people is released. First Nations leader Harold Cardinal responds with the *Red Paper*, sparking the political organization of the Aboriginal people of Canada.

1973: After much lobbying, Conne River is designated as "Native" by the provincial government. Conne River asks the federal government to designate the other Mi'kmaq communities as Native.

1973: The founding conference of the Native Association of Newfoundland and Labrador (NANL) is held.

1977: Charges are laid against Innu hunters and their meat and guns are confiscated. Wildlife Minister Tom Hickey says there will be "no special treatment for Indian hunters". Protests ensue. An informal agreement that game laws will not be used harshly against Innu hunters results.

1977: The Naskapi-Montagnais Innu Association (NMIA) is formed. The NMIA submits a comprehensive land claim. The Labrador Inuit Association (LIA) also submits its claim.

1978: The comprehensive land claims of the Labrador Innu and the LIA are accepted for negotiation by Canada.

1979: The federal government funds the Federation of Newfoundland Indians (FNI) for genealogical, land claims, and land use research.

1979: Virtually every Innu man in Sheshatshiu has been convicted of infractions of wildlife regulations, despite the events of 1977.

Late 1970s: Metis people begin meetings in the Lake Melville area.

1981: A tripartite agreement gives Conne River $1 million annually; the province's contribution is 10 to 15 per cent with the rest coming from the federal government. The Newfoundland government begins the practice of withholding money when it disagrees with the Mi'kmaq leadership over how it should be spent.

1982: Conne River again requests that the other Mi'kmaq communities be included under federal-provincial cost-sharing agreements. The Minister of Indian Affairs commits to doing so in the next few years.

1982: Premier Brian Peckford's government rejects the Mi'kmaq land claim. Peckford says the Mi'kmaq should be treated the same as all other Newfoundlanders.

1983: Innu hunters are charged with possession of caribou meat; they face large fines or jail time.

1983: Chief Michael Joe of Conne River and 11 other Mi'kmaq go on a hunger strike to force the federal and provincial governments to release their funding without conditions attached.

1983: Conne River leaves the FNI.

1984: The Conne River Mi'kmaq are registered under the *Indian Act*; the 500-plus Conne River Mi'kmaq become the only Indigenous people in the province to enjoy the full range of programs and services afforded other First Nations in Canada. Indian Affairs Minister John Munro tells Cabinet he has given the FNI his commitment to fund them for the purpose of establishing their eligibility for registration under the *Indian Act*.

1986: The Labrador Metis Association is incorporated.

1986: The Conne River Reserve is created. The Miawpukek land claim is rejected, although Ottawa offers to review additional documentation.

1988: The Department of Indian Affairs tells the FNI it will not process the request for registration under the *Indian Act* and will not fund further research.

1989: The FNI brings action in federal court to have its membership declared Status Indians in band communities within the meaning of the *Indian Act*. The organization also seeks inclusion as beneficiaries in a tripartite agreement and damages for breach of fiduciary responsibility. Ottawa responds that this is only a class action suit since the FNI communities are not bands and there is no fiduciary obligation.

Late 1980s: The Labrador Inuit Association negotiates the Non-insured Health Benefits plan out of the federal-provincial agreement. The health budget of the LIA increases from $200,000 to $2.6 million annually, dramatically improving health services in Labrador.

1990: Canada and the Innu Nation begin land claims negotiation.

1991: The federal government funds Labrador Metis Association land claim research. The claim is submitted in November.

1993: *Report on the Complaints of the Innu of Labrador to the Canadian Human Rights Commission* is issued. It states that the Innu of Labrador have the right to be registered as Indians and have reserves created.

1993: Violet Brown of Paradise River, a Metis Elder and fisher, is arrested on a salmon fishery violation.

1994: Conne River receives funding to do additional land claims research.

1994: Canada issues a Statement of Political Commitments concerning the Innu. In response to growing international pressure, Canada agrees to relocate the Mushuau Innu, provide emergency funding for Innu communities, and devolve programs and services to Innu control.

1995: Indian Affairs Minister Ron Irwin funds an institutional framework process for the FNI; this will assess the institutional capacities of the bands.

1996: The institutional framework support demonstrates the FNI's "capacity for self-government with the leanest of resources, fund-raising activities being their main source…"

1996: The Labrador Metis Association (LMA) submits supplemental land claim information.

1996: Over 200 Metis gather in Cartwright, Labrador to protest the granting of a sports fishing lodge license on the Eagle River to a non-Aboriginal applicant. The LMA had applied to run a Metis Cultural Centre at the same site. Forty-seven Metis are charged with mischief.

1996: The Royal Commission on Aboriginal Peoples recommends that Canada recognize the nationhood of the Labrador Metis and the member bands of the FNI as legitimate Mi'kmaq communities.

1996: The Mushuau Innu (Davis Inlet) Relocation Agreement is signed after a community referendum shows 97 per cent of residents wish to move to Little Sango Pond. Canada promises First Nations equivalency for the Innu of Labrador and the devolution of federal and provincial programs in order to promote the renewal of Innu health, culture, society, and economy.

1996: Conne River submits a revised land claim to the federal government. They are given funding to do more research as Ottawa deems documentation on current use and occupancy inadequate.

1997: Canada-Innu Transfer Agreement is signed. A federal order-in-council authorizes Minister of Indian Affairs and other ministers to treat Innu "as if they were registered Indians living on reserves"; Innu to continuing paying tax, unlike other First Nations; provincial programs, including education, social services, and policing, are exempt from agreement. There is an impasse over jurisdiction and funding responsibility.

1997: Twelve Metis fishers from the south coast of Labrador appear in court on fisheries violations; no Aboriginal rights defense is raised and they are ordered to pay fines between $250 and $2,500. Violet Brown's salmon license is suspended and she is ordered to pay a $2,500 fine.

1998: The federal Department of Justice recommends rejection of the Labrador Metis land claim.

1999: The mischief charges against Metis stemming from the 1996 Eagle protest are stayed.

1999: Innu submit Formal Request for *Indian Act* Registration and Reserve Creation. INAC Minster Jane Stewart denies existence of a federal offer of registration and reserve creation and refuses to consider it. Innu referendum overwhelmingly supports registration and reserve creation.

1999: Accord between Canada, Newfoundland and the Innu is signed. INAC Minster Robert Nault, Premier Brian Tobin, and Innu Nation President Peter Penashue agree to equivalency without registration and reserve creation; programs and services will be devolved; accord promises "necessary legal arrangements for Innu governance".

1999/2000: Canada backtracks on Innu registration issue. Indian Affairs Minister Robert Nault states that Canada is not in favour of registration and reserve creation for the Innu as it may reduce Innu motivation to settle land claim.

1999: Canada and the Innu Nation reach an Agreement in Principle on the interim steps necessary for land claim settlement and Innu self-government.

2000: Minister Nault agrees to leave option of Innu registration open but will not consider tax exemption.

2001: Premier Roger Grimes, Indian Affairs Minister Robert Nault, and William Barbour, President of the LIA, sign the Labrador Inuit Land Claims Agreement in Principle.

2002: William Barbour releases details of the ratification process for the Labrador Inuit Constitution, the basis for Inuit self-government.

2002: Innu beginning registering for the implementation of the *Indian Act* in their communities and the creation of reserves. Innu families begin moving from Davis Inlet to Natuashish, which will be an *Indian Act* reserve.

2002: The federal government appoints Marc Lalonde as its representative in exploratory discussions with the FNI concerning access to certain programs and services. The report is expected in the spring of 2003.

2002: The federal government agrees to review new cultural and historical research relating to the Labrador Metis land claim.

2002: The Ktaqamkuk Mi’kmaq Alliance is formed and unites with the Sip’kop Mi’kmaq Band of St. Alban’s to initiate legal action against the federal government.

Appendix 3
Selected Mi’kmaq Placenames on the Island of Newfoundland

Annieopsquotch Mountains: Aniapskwoj, meaning “rocky mountains” (western interior)
Ahwachanjeesh Pond and Brook: “Little Portage” Pond and Brook (interior)
Barachois: Kutapsku’j
Baasque Brook: Paskwe’wa’kik
Bay d’Espoir: Lapite’spe’ (south coast)
Bay Du Nord: Oqwatinipukwek (south coast)
Bay of Islands: Elmastukwek (west coast)
Bishops Falls: Kjipa’tilia’sewey Qapskuk (central Newfoundland)
Black River: Maqteuipskiji’jk (Placentia Bay)
Brazil Lake: Pa’si’lke
Burnt Wood: Qaqtekkiimu’j (Bay d’Espoir)
Burgeo: Najioqonuck (southwest coast)
Cape La Hune: Saqskiitek (southwest coast)
Conne River: Miawpukek (Bay d’Espoir, south coast)
Crooked Lake: Paqju’pe’k
Deer Lake: Qalipue’katik (west coast)
Ebbegunbaeg Lake: Epikim’pe’k, “low ba;y lake” (interior)
English Harbour: Atilasie’we’katik
Exploits River: Sple’tk (central Newfoundland)
Gander Lake: Akilasiye’wa’kik Qospem (central Newfoundland)
Grand Falls: Akilasiye’wa’kik (central Newfoundland)
Grand Lake: Wli Qospem
Great Northern Peninsula: Mekap’sk (northern Newfoundland)
Grey River: Nqanaqanik (south coast)
Humber River: Maqtukwek (west coast)
Indian Point: Ilnue’kwisawey

Island Pond: Minikupe'k
La Poile: Lapwelk (southwest coast)
Long Harbour: Pijipukwek (eastern Placentia Bay)
Long Range Mountains: Mekapisk (west coast)
Loon Pond: Quemo Gospen (Avalon Peninsula, eastern Newfoundland)
Medonnegonix Lake: "village halfway" (interior)
Mollyguajeck: "low growth lake" (interior)
Mount Sylvester: Prnaqtiin
Newfoundland: Ktaqamkuk or Taqamkuk
Newfoundland, Red Indian Land: Mekwejite'wa'kik
North Harbour: Wolnap'k (Placentia Bay)
Piper's Hole: Nogamgiatjit'ik (the Placentia Bay side of the Burin Peninsula)
Placentia: Pliisantek (Avalon Peninsula, eastern Newfoundland)
Port-aux-Basques: Sinalk (southwest coast)
Podops (or Putops) Lake: "whale" lake
Pushthrough: Piskwa'taqan'ji'j (south coast)
Red Indian Lake: Mekwe'jite'wa'kik (interior)
Red Island: Megoesagtiji'jg (in Placentia Bay)
Roti Point: Lu'tik (Bay d'Espoir, south coast)
Sandy Harbour: Nukamkia'ji'jk, may be the same as Piper's Hole (the Burin side of Placentia Bay)
St. Alban's (Ship Cove): Sip'kop (south coast, Bay d"Espoir)
St. George's Bay: Nujio'qoniik (west coast)
St. George's: Nujio'qon (west coast)
St. George's River: Nujio'qoniik (west coast)
St. Joseph's Cove: Katalisk Sipu (south coast, Bay d'Espoir)
St. Pierre (island): Senpir (French island off Newfoundland's Burin Peninsula, south coast)
St. Pierre (town): Wen'juikjikan
Terra Nova Lake: Pekwatapaq (eastern interior)
Trout Brook: Kun'tewi'ji'jk
Trout River: Atoqwa'sue'katik
Unama'ki: "place of the fog" (the Gulf of St. Lawrence between Newfoundland and Cape Breton)
Upper Burgeo Estuary: Twenasik (southwest coast)
Places names after Mi'kmaq hunters and trappers include Matthew's Pond, Noel Paul's Brook, and Joe Jeddore's Pond.

(Sources include: Sip'kop Mi'kmaq Band; Wetzel, 1995; Seary, 1971, Hewson, 1978; Jeddore, n.d.. Note that spellings may vary from source to source.)

Appendix 4
Natuashish: How to Build a Community

LOCATION: The 2,000 hectare site near Little Sango Pond on the mainland of Labrador was chosen by the Innu since it was their traditional spring gathering site.

COMMUNITY INVOLVEMENT: Architects and town planners visit Elders in their homes, travel to outpost camps to meet with Innu, and ask students for "a wish list" for their future school. Two Innu English-speakers, Bernadette Piwas and Madeline Rich, are hired to communicate architectural concepts to the community. The band council has the final say on all decisions.

TRAINING: Ninety Innu are trained in electrical wiring, plumbing, and carpentry. One family at a time is trained in furnace and hot water tank maintenance, and the use of washers, dryers, and toilets in one of four model homes.

RESIDENTIAL LOT LAYOUT: Piwas and Rich compile family trees since the community wanted its houses laid out in extended family groups (akin to traditional family tent clusters).

COMMUNITY LAYOUT: Women wanted the business district away from the school so that they'd have a more formal work arrangement, without children interrupting them at work. Elders wanted the health centre near the school in case of accidents, but also away from the business district in a quiet area conducive to healing.

CULTURAL CONTENT: Two rooms in the healing centre are round, with one resembling a sweat lodge. The school resembles an eagle in flight when viewed from above; this is in recognition of the importance of animals to Innu. The community decided that the family of the first person to die in Natuashish will designate the site of the cemetery.

STATE OF THE ART FACILITIES: The students most wanted a long-distance learning centre so the school is wired with high-speed Internet access. Vandalism will be prevented or at least minimized through the inclusion of such materials as cinder block walls, shatterproof light fixtures, and Lexan glazed glass. Homes are insulated to near R2000 standards.

Appendix 5
Thoughts on the Relocation of the Mushuau Innu

"No one believes baths, toilets and running water are going to wash away the troubles. Our problems will not disappear overnight. For more than 30 years we have been in limbo. We stopped learning."

Cajetan Rich, director general of the relocation project

"Finally we will be back on the mainland, in the place we used to go when we were young. We will be going home."

Elder Marie Georgette Mistinapeau

"The first relocation robbed the Mushuau Innu of their life's purpose. Natuashish is giving them something back – not what was taken away, but this is a step towards a future they can build for themselves."

Harriet Burdett-Moulton, project architect

(All quotes are from Evans, 2003.)

Royal Commission on Renewing
and Strengthening Our Place in Canada

The Changing Role of Women in Newfoundland and Labrador

— Joanne Hussey

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

Women and men experience social, economic and political change differently. This is because women and men occupy different positions in society characterized in part by women's lower participation rates in the labour market, lower average incomes and higher responsibility for unpaid work. These factors have affected women's experiences of recent and ongoing change in Newfoundland and Labrador including the collapse of the fishery, the emergence of new industries and demographic change. By recognizing the ways in which women have been affected by these social, economic and political shifts over the past decade we can begin to develop a blueprint for the future of the province that incorporates the needs of women. In order to achieve the goals of prosperity and self-reliance, we need to broaden our vision and acknowledge that these goals will not be realized if half of the population is left behind. To that end, policies need to be developed that (1) facilitate the inclusion of women in decision-making, (2) improve women's access to training and education, (3) improve gender equity at work, (4) encourage women as entrepreneurs, and (5) support women as they age.

Contents

Introduction 259
- **Understanding the Gender Gap** 260
- **Income** 261
- **Unpaid Work** 262

Women's Experiences of Social, Economic and Political Change in Newfoundland and Labrador 264
- **The Collapse of the Fishery** 264
- **The Emergence of New Industries and the Age of the Mega-Project** 267
- **Demographic Change** 270

Conclusions and Recommendations 273

Endnotes 281
Bibliography 281

Introduction

The Royal Commission on Renewing and Strengthening Our Place in Canada provides a unique opportunity to reflect broadly on the challenges and changes that have shaped Newfoundland and Labrador over the past 50 years and to think about the long-term vision we have for the future as Newfoundlanders and Labradorians and as Canadians. Traditionally, policy development and planning exercises have resulted in programs that meet the needs of men. This has largely been due to two factors. First, men have been over-represented in decision-making processes. The second reason is that there has been no public recognition of the fact that women's lives are different from men's and, therefore, women and men are affected differently by social, economic and political change.

It is vital that we seize the opportunity presented by this exercise and use it to ensure that, as we lay out plans for the future, we prepare to move forward together. Instead of creating a future in which only men"s needs continue to be recognized and met, we need to broaden our vision and recognize that the goals of prosperity and self-reliance will not be realized if half of the population is left behind.

It is not just a matter of principle that women's needs be incorporated into the blueprint for the future; it is a matter of necessity. In order to meet the challenges we face as a province it is essential that complimentary social and economic policies are developed to encourage women into the labour market to meet growing skill shortages, entice young families to the province to stem the tide of out-migration and to support women as they age to ensure the continued well-being of our communities. Meeting the needs of women means finding creative solutions to the challenges that Newfoundland and Labrador has faced over the past decade.

In order to move forward it is necessary first to understand how women and men are affected differently by social, economic and political change. Then we can examine the experiences of women with regard to recent and ongoing change in Newfoundland and Labrador; namely, the collapse of the fishery, the emergence of new industries and demographic change. These three topics were chosen as a means of setting boundaries for a project that could have developed in any number of directions. The goal of this report is to provide an assessment of recent and ongoing changes in Newfoundland and Labrador in order to inform the Commission which seeks to develop recommendations on how the province can best achieve prosperity and self-reliance. With that in mind, the collapse of the fishery, the emergence of new industries and demographic change were selected as the events of the recent past with the most widespread implications for the people of the province. Within the discussion of these three topics we can begin to develop recommendations for the ways in which women's needs can be met as we begin to design a blueprint for the future characterized by prosperity and self-reliance.

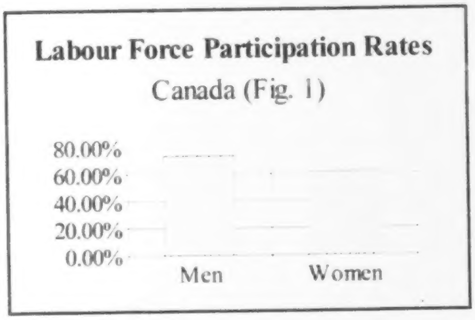
It is important to note that although women in Newfoundland and Labrador have made great progress in the past 50 years the purpose of this report is to explore the key challenges we now face. This is not meant to undermine or dismiss the significant achievements or the contributions made by women in the arts, in politics, in business, in their communities and in their families. It is necessary to create opportunities to celebrate our successes. However, it is vital that we seize this opportunity to identify the challenges that women still face.

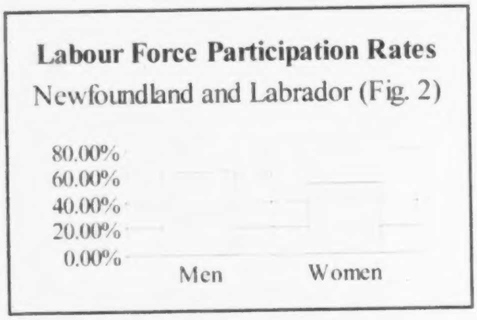
Understanding the Gender Gap

In order to understand why women experience the effects of social, economic and political change differently than men it is necessary to examine the differences in men's and women's positions in society. These differences are shaped by assumptions about the traditional roles of men and women and are evident in the picture painted by statistics related to labour force participation, income and unpaid work. This is not meant to be a comprehensive catalogue of the ways in which women's and men's experiences differ. Rather, it is a discussion of a number of key areas that demonstrate why women and men can be affected differently by change.

Throughout this discussion we will look at the position of women as a group. However, it is also necessary to recognize the diversity that exists among women in Canada as well as in Newfoundland and Labrador. Women are not a homogeneous group and the roles and challenges are different for each woman. Women in Newfoundland and Labrador are rural and urban, differing ages, lesbians, women with disabilities, different ethnicities, Aboriginal. Research has documented that these different groups of women occupy different positions in society. For example, "Aboriginal women receive less formal education than non-Aboriginal women…[and] experience a substantial wage gap between themselves and Aboriginal men, also compared to non-Aboriginal women" (The Federal/Provincial/Territorial Joint Working Group of Status of Women and Labour Market Officials on Education and Training 1). Therefore, although one can comment that women in Canada earn less than men it is also important to recognize that among women, Aboriginal women earn less than non-Aboriginal women. This means that while women as a group are more economically vulnerable to the adverse effects of social, economic and political change, some women are more vulnerable than others because their position in society is determined by factors other than being female. It is essential to acknowledge that throughout this discussion we are speaking in generalizations. This is not meant to suggest that all women are poor any more than all men are rich. However, in an exercise that seeks to chart the future direction for Newfoundland and Labrador (presumably making generalizations about the people of the province in the process) it is necessary to identify some characteristics of women as a group. This is not an attempt to downplay the diverse spectrum of women's experiences but an attempt to identify the common ground that to some degree has shaped the experiences of most if not all women.

Labour Force Participation Rates





According to Statistics Canada in 2002, 60.7 per cent of all women over age 15 in Canada were involved in the labour force compared to 73.3 per cent of men. In Newfoundland and Labrador, 53.4 per cent of women over age 15 were labour force participants compared to 64.1 per cent of men (Statistics Canada *d*) (see Figures 1 and 2).

Although the participation of women in the labour market has grown significantly in recent years, the rate of participation for women is still consistently lower than it is for men. Women's participation in paid employment also tends to be on different terms than that of their male counterparts.

For example, one factor that distinguishes women's participation in the labour market from men's is the number of women who work part-time.

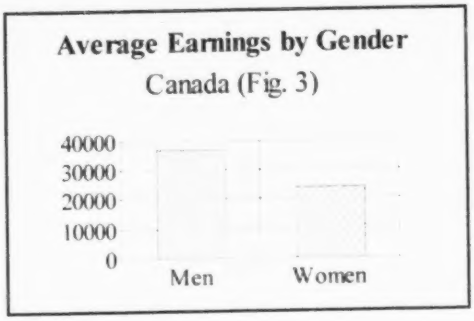
> In 2000, almost 2 million employed women, 27 per cent of all women in the paid workforce, worked less than 30 hours per week at their main job, compared with just 10 per cent of employed men. In fact, women have accounted for about seven in 10 of all part-time employees since the late 1970s.
>
> (Statistics Canada *c* 6)

This trend has implications for women's access to Employment Insurance, opportunities for advancement and pensions. For example, the 1996 change in the Employment Insurance regulations from a weeks-based to an hours-based system had a disproportionate impact on part-time workers, the vast majority of whom are women. As Payne explains, "Women average 30 hours of work a week, while men average 39 hours. In fact women make up about 80 per cent of the workers who get between 15 and 34 hours of work a week. As a result, women need more weeks of work than men to qualify for benefits." (Neis and Grzetic 34)

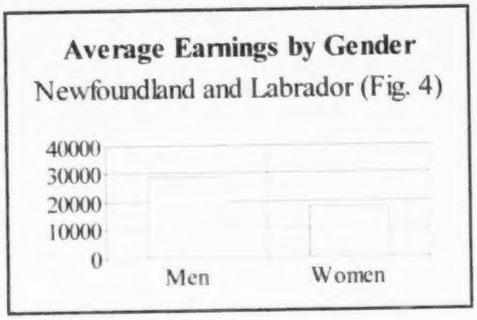
Although more women are now involved in the labour market, because their pattern of employment tends to be different from that of men, fewer women than men are able to avail of the full complement of benefits normally gained through employment. It is often argued that women choose part-time work because it allows them to achieve balance between work and family responsibilities, which would reflect the impact women's unpaid work has on their relationship with the labour market. However, while that is the case for some women, "[i]n 2000, 24 per cent of all female part-time employees indicated that they wanted full-time employment, but could only find part-time work" (Statistics Canada *c* 7). This speaks to an overall reduction in full-time, full-year employment opportunities in recent years but it also implies that the type of jobs women get may be influenced by the assumptions of employers about women's preferences for part-time work.

Income

Related to labour market participation is women's income relative to men. Not only are women less likely than men to be employed, they are also more likely to be paid less. In 2000, the average income of women in Canada was $23,796 compared to $37,210 for men (Statistics Canada *d*). In Newfoundland and Labrador, women earned $18,341 compared to $29,267 for men (Newfoundland and Labrador Statistics Agency *b*) (see Figures 3 and 4).



Average Earnings by Gender
Canada (Fig. 3)



Average Earnings by Gender
Newfoundland and Labrador (Fig. 4)

Nationally, women's earnings are 64 per cent of men's while provincially, women earn 63 per cent of what men earn. This is because women tend to be employed primarily in lower paid jobs concentrated in lower paying sectors of the economy. The gender-segregated nature of the labour market is largely due to long-held assumptions about the type of work women can and cannot do. When women enter the labour market they tend to be employed doing the same type of caring work women traditionally do on an unpaid basis inside the home. For example:

> In Newfoundland and Labrador women make up a large proportion of paid employees in the healthcare sector. Over the past decade 80 per cent of healthcare workers have been women, compared with 20 per cent of men. In some occupations such as nursing and in the home support sector, women make up an even larger proportion of paid employees compared with men.
>
> (Botting 75)

Although the healthcare sector may be one of the higher paying female-dominated sectors, it is important to note that within the sector, women are concentrated in the lower paying areas such as nursing and home care. The highest paid positions including doctors and hospital administrators would be more likely to be occupied by men. This is why, on average, women earn significantly less than men; women earners tend to be concentrated at the lowest end of the pay scale while men are concentrated at the high end. Therefore, even when women do enter paid employment their economic security is not guaranteed. Women continue to be economically dependent and more vulnerable to the adverse affects of social, economic and political change despite growing levels of participation in the labour market.

Unpaid Work

The unpaid work done within families and communities represents a significant, yet often unrecognised, social and economic contribution and has a tremendous impact on the relationship between women and the labour market. In Canada in 1992, "unpaid work represented the equivalent of 12.8 million full-time jobs. Women contributed two-thirds of unpaid work hours, or about 8.5 million full-time jobs" (Federal/Provincial/Territorial Ministers Responsible for the Status of Women 21). Unpaid work includes housecleaning, home maintenance, food preparation, caring for children and providing care for elderly relatives. In Newfoundland

and Labrador in 1996, 21 per cent of women over the age of 15 reported 30 or more hours of unpaid housework a week compared to nine per cent of men (Statistics Canada *a*). This level of involvement in unpaid work has traditionally been and continues to be a barrier to the full participation of women in the labour market. It constitutes one of the major differences between the lives of men and women and is sometimes referred to as women's 'second shift'. Statistics have indicated that even when women enter full-time paid employment, they maintain responsibility for the same number of hours of unpaid work. After the 'first shift' of paid employment, women come home to the 'second shift' of unpaid work in the home.

Women's unpaid work has traditionally been one of the reasons cited for women's lower participation rates in the labour market. However, changes in the social, economic and political climate over the past 20 years have increased the necessity for families to have two incomes. The result is that many women are pushed to the breaking point working the double shift of paid and unpaid labour. Therefore, the cost for women entering the labour market is higher than that for men while the economic returns are lower. This has an impact on the ways in which women and men are affected differently by social, economic and political change. One example is provided by recent cuts to healthcare:

> The transfer of care work from institutions to the community has privatized the responsibility of caring for the infirm, and elderly to women who are carrying an increasing burden of responsibility on their shoulders to the detriment of their health and economic status.
>
> (Botting 112)

The unpaid work women perform outside of the labour market means that any further downloading of responsibility as a result of government cutbacks can force women to cut their ties to paid employment, further entrenching their economic vulnerability. Because responsibilities for unpaid work are not taken into consideration in the organization of the workplace, women's entrance into the labour market is always on different terms than men's. Unfortunately, unpaid work has not been rewarded financially or through the accrual of social benefits. The result is that social, economic and political change will impact the lives of men and women differently.

In summary, women and men have traditionally occupied different positions in both Canadian and Newfoundland and Labrador society. Although these traditional roles have changed significantly over the past 50 years, women and men generally continue to have different experiences as demonstrated by their responsibilities for unpaid work and participation in the labour market. It is a common misconception that "[t]he economy and economics are deemed to be gender neutral" (Muzychka et al. 7). In fact, "men and women have different experiences. Women are at a disadvantage" (Muzychka et al. 7). Women are less likely than men to be involved in paid employment and when they do participate in the labour market their participation tends to be different than men's. Women are more likely to work part-time and more likely to be concentrated in lower paid, female-dominated sectors. This affects women's ability to attain economic security and access to social benefit programs. These differences are largely due to the fact that the entrance of women into the paid labour force is mediated by their level of responsibility for unpaid work. As a society we have not formally recognized the value of unpaid work either by providing financial rewards or providing access to social benefit programs for unpaid workers. All of these factors result in women's experiences of social, economic and political change being different from those of men.

Women's Experiences of Social, Economic and Political Change in Newfoundland and Labrador

The Collapse of the Fishery

> We may have been considered little people in the fishery, but when fishermen came with their catch we felt like giants. We were the heart and soul of the plant.
>
> (Mildred quoted in Woodrow and Ennis 3)

Few events have had the social, economic and political impact on this province in recent years that the collapse of the fishery has had. Women's experience of the loss of economic security caused by the collapse was particularly acute because of their inequitable position in the labour market in general. The lack of participation of women in formal decision-making bodies made it difficult for women to influence the restructuring process, which meant that their particular needs were not taken into consideration. As a result, women experienced barriers to accessing the services that were made available. In particular, women's access to training and small business start-up funds were limited by gendered perceptions of skill and assumptions about women's roles in the labour market. The social impact of the collapse of the fishery was felt acutely in rural areas of the province as the survival of many communities was called into question.

Women in Newfoundland and Labrador have always played a significant role in the fishery; "census data for 1891, 1910, 1911 and 1921…indicated that women consisted of over 40 per cent of the fisheries labour force" (Wright 129). As the fishery evolved from family-based saltfish production to factory-based frozen fish production, women found work in the fish plants. In the processing sector, women's share of the work rose from 16 per cent in 1955 to 40 per cent in 1987 (Andy Rowe Consulting Economists 1). Before its closure in the early 1990s, women made up 46 per cent of the unionised workers at the Fisheries Products International (FPI) plant in Trepassey (Robinson 166). Despite this, "women workers are largely absent from the literature, the media reports and the policies addressing plant closures, adjustment and retraining in Canada…Media reports frequently describe the people affected by the fishery crisis as 'fishermen'" (Robinson 164).

In fact, women's vulnerability was arguably greater than that of their male counterparts. As early as 1991, researchers were predicting that women workers in the fishery were more vulnerable to the adverse impacts of the social, economic and political changes caused by the collapse of the fishery. A report distributed by the Women's Policy Office documented women's experiences:

> …their incomes are lower, there are fewer alternative employment opportunities for women than men, and women with children cannot move easily to find work. These gender differences mean that women have probably been harder hit by structural changes that have eroded fishery employment than male processing workers.
>
> (Andy Rowe Consulting Economists 12)

This higher level of vulnerability to the immediate economic impact of the collapse of the fishery was compounded by the fact that the restructuring process initiated and carried out by various levels of government did not address women's needs. Again, this was predicted by the report compiled by Andy Rowe Consulting Economists in 1991. That report's assessment of the programs in place at the time found that there was no consideration given to the differences between men's and women's experiences of the collapse of the fishery. It also warned "[a] failure to design programs with women's needs in mind will directly affect their access to and ability to benefit from such programs" (Andy Rowe Consulting Economists 39). This was in fact the case with the restructuring programs introduced after 1991.

The two major government aid packages were the Northern Cod Adjustment and Recovery Program (NCARP), administered by the Department of Fisheries and Oceans, and The Atlantic Groundfish Strategy (TAGS), which was administered by the Department of Human Resource Development Canada (HRDC). The absence of women in formal leadership positions meant that the differing impact on women of the ongoing changes brought about by the collapse of the fishery was not considered and incorporated into the planning and implementation of the restructuring process. This was evident in that the type of training that was offered to women reinforced traditional ideas of a gender-segregated workforce. As Neis and Gzretic have argued,

> [a]n analysis of TAGS and NCARP-funded training shows that women were considerably under-represented in career exploratory programs and retrained predominantly in traditionally female-dominated areas. Without active intervention and support, their training choices will likely continue to make them vulnerable during periods of downsizing and restructuring, and confine them to a narrow range of work opportunities.
>
> (111)

The anecdotal evidence recorded in Woodrow and Ennis' interviews with women in the fishery supports this phenomenon. One woman commented, "You can't train 100 women as secretaries in Bonavista and expect them to all get work" (73). Another woman elaborated:

> It seems like there's more jobs for men that retrain than women. How many hairdressers can a community have? Women are getting retraining in low-paying jobs like homecare workers. Women are being ignored, and their concerns are not being addressed properly.
>
> (5)

Instead of improving the situation of women the retraining programs implemented after the collapse of the fishery served to further entrench women in traditionally female-dominated sectors of the economy where low pay and few opportunities are the standard. This situation could have been avoided if training programs had acknowledged the knowledge and skill women already possessed from their work, not only in the fishery, but also in their families and communities.

This under-valuation of women's skill and ability was also present when women attempted to secure support to start their own businesses. One government official expressed the opinion that,

> women plant workers had no skills other than plant work, which he considered unskilled. The extensive organizational and leadership experience many of them had in community organizations and in unions was meaningless. Unless people had worked in an office, or in management, he said, (and he seemed to be referring to the local fish plant office and management), they were not skilled to start up a small business.
>
> (Robinson 169)

This narrow conception of skill prevented many women from accessing the resources and opportunities they desperately needed to improve their lives after the collapse of the fishery. This was compounded by the fact that such programs also ignored the barriers women face when trying to access training and enter the labour market. For example,

> [n]early half the women who participated in Women's Committee of the Fishery, Food and Allied Workers' Union consultations identified family responsibilities and considerations as a barrier to retraining, and several reported how their NCARP counsellors told them childcare assistance was not available for those who wanted to enter retraining programs…
>
> (Muzychka 10)

This lack of understanding of the ways in which women's lives differ from men's prevented programs like NCARP and TAGS from addressing the needs women had after being displaced from the fishery.

Women in the fishery started from a position of relative inequity; they were concentrated in lower paying positions with less seniority. Because of this, women felt the economic impact of the collapse of the fishery more acutely. The subsequent restructuring process did not meet the needs of women largely because women were not involved in the formal decision-making process. The result was that women were unable to access the services and resources they needed to achieve social or economic security.

Those women who were not directly employed in the fishery were not spared from the impact of the collapse. The loss of the main industry in many rural areas of the province resulted in a loss of services and a decline in population. These social changes are explored further within the discussion of demographic change.

The Emergence of New Industries and the Age of the Mega-Project

In the years following the collapse of the fishery, Newfoundland and Labrador has seen the emergence of new industries including tourism, oil and gas and the development of mega-projects like Hibernia and Voisey's Bay. The potential social and economic benefits of these projects are substantial, however, women have not yet seen their fair share of the rewards. With regards to the oil and gas industry and mega-project development, general barriers to employment are multiplied when women try to enter non-traditional occupations. Women's employment in traditionally female dominated service sectors associated with the tourism industry has also not resulted in economic security as such employment tends to be seasonal and many women lack access to the resources needed to start their own business. Overall, women's participation in regional and local economic development initiatives has been limited by perceptions of gender roles which in turn has limited the degree to which such initiatives have met the specific needs of women.

Women's under-representation in the traditionally male fields of trades and technology is not a new phenomenon. Despite the existence of an affirmative action program at the IOCC mine in Labrador City, women made up only seven per cent of the total labour force in 1990 (Parsons 215). Participation rates were similar during the construction of the Hibernia platform; "about 200 women worked on the Hibernia construction site, mainly in clerk and camp attendant positions. Forty women worked in trades, technology and engineering positions. As of May 1996, women represented four per cent of the total workforce" (Gzretic 11). Since the project entered the production phase, women represent four per cent of those working in technical jobs offshore and 12 per cent of those in technical jobs onshore (Gzretic 11). In order to provide an indication of the number of women employed by the oil and gas industry in engineering, professional or technical trades, it is important to note that most companies report that women make up about 1.5 per cent of their workforce in this area (Women in Resource Development Committee 3). The reasons for women's under-representation in these fields include:

> …inappropriate training, discrimination in hiring, inappropriate work practices and environments, sexual harassment and/or the perception of a culture of harassment, and family responsibility problems. These factors may be countered, or reinforced, by the attitudes, approaches and actions of employers, educators, managers, supervisors, labour representatives, co-workers, family and friends.
>
> (Gzretic 3)

Women's under-representation in male-dominated fields like trades and technology is related to gender-biased perceptions of ability. As previously discussed, women in the labour market tend to be employed in areas related to the unpaid work women do within their homes and communities. Women are assumed to be more suited to these types of caring professions than men. These assumptions are based on the roles traditionally played by women and men and have little basis in reality. However, these perceptions of ability held by society in general result in many women not considering careers in non-traditional occupations as an option. For example, when a group of Inuit women met to discuss the implications of the development of the Voisey's Bay nickel mine they "were surprised to recognize that when they thought about jobs at the mine, they imagined them going to their husbands and sons rather than to themselves and their daughters" (Archibald and Crnkovich 32).

Even when they are able to overcome the perception that women aren't suited for trades, women continue to face barriers to accessing the training they need in order to become qualified for higher paying jobs in trades and technology. Because women have traditionally been in the minority, if not entirely absent, from training programs in trades and technology the programs tend not to be structured to meet women's training needs. Women need training that is flexible, respectful of their skills and experiences, takes into consideration their particular requirements for financial support and acknowledges their commitment to unpaid work, including childcare and eldercare. Women in rural areas face additional barriers to accessing training opportunities including the need to commute long distances or relocate. When policies to address these needs are not in place, women are prevented from accessing the training they need in order to benefit from the economic opportunities presented by the development of the oil and gas industry and mega-projects like Voisey's Bay.

Those women who are able to complete their training face additional barriers as they attempt to enter the workforce. In fact,

> ...possession of a trades certificate or diploma does not reduce the risk of unemployment for women. This conclusion is derived by comparing the unemployment rates of women whose highest educational level is a high school certificate with those who have a trades certificate or diploma. In each age group, the unemployment rate of women who have a trades certificate or diploma is actually *higher* than that found in the comparable age group among women who simply have a high school certificate.
>
> (Thiessen and Nickerson 42)

In the absence of meaningful employment equity and family friendly policies, women will continue to be excluded from the benefits of developments in traditionally male-dominated sectors. In one woman's experience, "even when a written policy was in place to accommodate married couples working shift work, the company and union did not work together to enforce it" (Gzretic 20). A commitment needs to be made to develop policies and foster an atmosphere in the workplace that appreciates the need for women and men to be able to balance work and family responsibilities. Women also need to be guaranteed that they will receive equal pay for the same or similar work. It will not be possible to encourage women to enter traditionally male-dominated fields if they will not earn wages equal to their male counterparts.

Unless women are encouraged to train and seek employment in non-traditional occupations, Newfoundland and Labrador will continue to experience skill shortages that hamper the growth of new industries like oil and gas. In conjunction with this, shaping these new industries as family-friendly will help reverse out-migration as policies are put in place that recognize the needs of dual income families. Providing ample opportunities for both women and men is the only way to ensure continued growth in these emerging industries.

Although this discussion has focused on opportunities for women to gain the skills needed in order to take advantage of growth in the oil and gas industry, it is also important that women be encouraged to pursue higher education in general. In recent years the number of women in university has increased and nationally women now make up the majority of those enrolled in undergraduate programs.[1] In Newfoundland and Labrador, women also make up 53 per cent of those who have some university education (Newfoundland Statistics Agency *a*). However, women are still underrepresented in certain fields of study including engineering, applied sciences, mathematics and physical sciences (Thiessen and Nickerson 29). Women may not be entering these traditionally male-dominated areas of study for the same reasons that they have not entered non-traditional occupations; women do not think of these areas of study as options for themselves and may face barriers to completing their education and finding employment in their chosen field. In addition to measures put in place to support women's entrance into growth industries like oil and gas, steps must be taken to improve women's access to training and education at all levels to ensure that women are able to take advantage of the full range of opportunities within Newfoundland and Labrador.

The expansion of the tourism industry in Newfoundland and Labrador is another area where the potential for prosperity has presented itself. However, it has been the experience of many women that the industry has created low-paying, seasonal employment in the traditionally female-dominated service sector which has not served to greatly enhance women's social or economic position in the province. A needs assessment conducted by the Discovery Women's Network in Economic Zone 15 found that:

> The downside of tourism from women's point of view is that the sector at the present time offers short-term employment. Women would like to understand ways in which the season might be extended in order to provide longer-term jobs...Tourism facilities are often operated by women and whereas most believe there is great tourism potential, they are unclear how to go about accessing opportunities. Some stated that more resources and support systems are needed to help trained people develop their ventures, which would benefit the area. Some felt that government programs are not adapted to the needs of small rural business – women are expected to meet what they perceive as unrealistic program criteria or forego help.
>
> (Management by Design 13)

Providing opportunities for women to start their own small businesses is one area that could improve the situation. In fact, "[s]mall firms generated a significant percentage of the gross employment in the region [Atlantic Canada] and were responsible for much of the job creation in recent years" (Neis and Gzretic 129). However, many women are not able to access the resources they need in order to start their own business; "[t]he major source of startup capital for women in small businesses is from personal sources, particularly savings. They are less able than male owners and joint male-female owners to leverage financing from banks and government sources" (Neis and Gzretic 129). In fact, the loan rejection rate for businesses owned by women is 23 per cent, compared to 14 per cent for those owned by men (Federal/Provincial/Territorial Ministers Responsible for the Status of Women 15). As previously discussed, this is most likely due to gender-biased conceptions of skill and the lack of value attributed to the work traditionally done by women.

The emergence of new industries in Newfoundland and Labrador has created opportunities for economic growth. However, women's experiences of these opportunities have been different from men's as women face barriers to training and employment. Many of the opportunities offered to women have reaffirmed women's segregated position in the labour market.

Demographic Change

Out-migration, population decline and an aging population have characterized demographic change over the past decade in Newfoundland and Labrador.

> Beginning in 1993-94, following a decade of little or no change in total population, Newfoundland and Labrador entered a period of continuous population decline precipitated by record high levels of net out-migration and continually declining births. The population has aged rapidly over the past decade or two and significant shifts in the regional distribution of population have occurred…Looking forward, it appears highly probable that total population and births will continue to decline, deaths will continue to increase, the population will continue to age (younger age groups decline in number while older age groups increase) and regional shifts towards urban centres will continue. In addition, less young people entering the labour force combined with large groups of baby boomers retiring point to potential shrinking of labour supply.
>
> (Department of Finance 2)

Many of these changes are related to the collapse of the fishery. With the loss of the economic base in rural areas many young people chose to move to urban areas in Newfoundland and Labrador and cities outside of the province. The loss of young families has guaranteed that rural populations will continue to shrink and be disproportionately made up of seniors. All of these factors will have a particular impact on the lives of women in Newfoundland and Labrador. This is because women make up a larger proportion of the elderly population and are more likely than men to be responsible for the work, both paid and unpaid, associated with caring for an aging population. In fact, women's unpaid work in families and communities has largely been expected to compensate for the loss of government services in rural areas as a result of population decline. Because of women's inequitable economic status throughout their lives, there is significant concern about the economic security of the aging female population and the impact of that insecurity on the women who are expected to care for them.

According to the Department of Finance, "[t]he median age range in the province is expected to increase from 37.9 years of age in 2001 to roughly 46 in 2016" (8). The elderly population in this province is likely to be made up disproportionately of women, which has particular consequences for service provision and social policy.

> Women in Newfoundland and Labrador outlive men by an average of eight years…However, this does not mean that their health is superior to men. On the contrary women are more likely than men to experience chronic illness and disability because they live longer. Women tend to suffer higher rates

> of chronic illness and morbidity whereas men have higher rates of early death. Women are more prone to suffer from degenerative diseases such as arthritis or osteoporosis. The risk for degenerative diseases is increased if a woman lives in poverty, as many older widowed or single women, aboriginal women, and disabled women do…
>
> (The Working Group on Women's Health 4)

It is women, often family members, who step in to provide care for the older members of the population. According to the 1996 Census, 19 per cent of women over the age of 15 in Newfoundland and Labrador reported providing some hours of unpaid care to seniors (Statistics Canada *a*)[2]. The extent of this phenomenon is also made clear by a survey conducted by the Newfoundland and Labrador Provincial Advisory Council on the Status of Women at a conference in 2000. Of 329 women, 47 per cent said that the state of healthcare in our province and the large number of women caring for family members who are discharged too early from hospitals was a major concern in their community. Thirty-seven per cent cited the low wages, long hours and insecurity of women providing home care services (Hancock 43). These concerns seem to have been exacerbated by the recent restructuring of the healthcare delivery system in Newfoundland and Labrador. Botting explains,

> …that although healthcare reform and privatisation have had dramatic effects on both men and women, some aspects of restructuring have affected women more than men, and differently than them and some groups of women appear to be more vulnerable to negative effects than others. While somewhat preliminary, the findings suggest that since women are more likely than men to be poor and elderly and, in their poverty, to have dependents to care for; since responsibility for unpaid caring work is more likely to fall on their shoulders than those of men; and since they make up a majority of healthcare workers who have, in most cases, lost employment, wages and job security as a consequence of privatisation; women in general, and poor, rural, nonprofessional and elderly women in particular may have suffered disproportionately from the negative impacts of privatisation.
>
> (3)

The trend has been increasing reliance on home care as a means to provide the necessary services to the aging population. Frequently, home care is provided on an unpaid basis and even when it is provided on a fee-for-service basis, wages are extremely low for the women employed in this growing industry. This is an important concern for two reasons. The first is that the cost of home care needs to be kept within the means of the elderly people who require it. In the past this has been accomplished by way of government subsidies. However,

> [t]he demand for home support services is expected to increase exponentially over the next decade or so. For example, the CRIAW study determined that in the St. John's region in 1996 there were 17,075 men and women over the age of 65. If the proportion of women is the same as it is province-wide (57 per cent of the population over age 65) then the gender breakdown of seniors in the St. John's region would be 9,733 women and 7,342 men. In

> 1998 only 1.2 per cent (or 203) of these seniors qualified for subsidized care. The number of seniors receiving subsidized care dropped from 800 in 1994 to 203 in 1998.
>
> (Botting 96)

As the number of seniors requiring home care continues to rise, the government will either have to increase the amount of funding available for subsidies or the elderly will have to find a way to pay for home care out of their own pockets. Overall, the incomes of people over 65 in Canada have improved in recent years. Only 19 per cent of seniors were considered low income in 1994 compared to 34 per cent in 1980 (Statistics Canada *b*). However, there is still a significant gap between the incomes of men and women after retirement. The median income of men over age 65 in Canada is 82 per cent of the income of the working age population while the median income of women is 70 per cent (Casey and Yamada 38)[3]. This is particularly significant because women make up a large percentage of the total senior population; 58 per cent of all people over 65 and 70 per cent of those over 85 (Statistics Canada *b*). These trends of the persistent income gap between men and women and women's longer life expectancy result in women being more likely than men to face periods of low income later in life. Therefore, if home care is largely provided by for-profit companies and government subsidies continue to decline, elderly women will be disproportionately affected.

The second concern is that home care has to be made economically viable enough that the women who make up the majority of workers in the industry are able to achieve economic security for themselves, which will undoubtedly have an impact on their ability to provide for themselves in old age. In light of this reality the Canadian government has developed some measures to attempt to relieve the financial burden of informal caregivers. However, these benefits are provided indirectly (through the tax system) and have limited impact on the financial situation of the caregiver. For example, the caregiver tax credit allows caregivers with net incomes of less than $13,853.00 to receive a tax credit up to a maximum of $400.00 per year if they are residing with and providing home care for an infirm dependent relative over 65. Obviously, this benefit is only available to a fraction of the informal caregivers in the country. Those who care for individuals under the age of 65 and those who do not live with the individual to whom they provide care are excluded from the benefit, as are those caring for non-relatives. Also, the tax credit does not ensure that caregivers have access to any benefits like personal healthcare or pensions. The result is that, "unless they have other means to access pension regimes, they are likely to find themselves receiving the bare minimum of retirement pensions. That is, they are likely to be close to poverty levels when they themselves are retired" (Jenson and Jacobzone 30).

Providing unpaid care to elderly relatives is not the only barrier preventing women from accessing adequate pension benefits. As previously discussed, women's entrance into the labour market is on different terms than men. Pension regimes, like the Canada Pension Plan (CPP), assume a male pattern of full-time, long-term employment as the norm. Because women are more likely to work part-time and to take time away from the labour market to provide unpaid care for children or elderly relatives, their ability to qualify for CPP benefits is reduced. Even when they receive benefits they will likely be lower than men's as a result of the fewer number of total hours spent in employment. This is compounded by the consistent gap in earnings between women and men. Women earn less than men when they are employed and therefore receive less when they retire. Women's economic insecurity throughout their lives also prevents them from making significant contributions to private pension funds.

The effects of out-migration and population decline have been felt most acutely in rural areas of Newfoundland and Labrador. Government offices and businesses have relocated to larger service centres as those who remain in the province increasingly choose to live in urban areas. Many of the residents of rural communities, particularly elderly women, find their access to these services very limited. This highlights the need for service providers to find a balance between cost effectiveness and adequate levels of service provision.

As previously discussed, when government services are withdrawn there is typically a downloading of responsibility onto women. However, because of out-migration and the decline in population in rural areas there are fewer people to take on the unpaid activities that sustain communities. According to the Community Accounts of the Strategic Social Plan there are fewer people volunteering but those individuals that are find themselves contributing more hours of unpaid work. The average number of volunteer hours per person went from 135 hours in 1997 tc 205 in 2000 (Community Accounts). The number of hours contributed by women doubled over the same time period (ibid). This level of commitment from a shrinking pool of volunteers is unsustainable. Another factor that diminishes the ability for communities to compensate for the loss of government and business services is the thinning of family support networks. Out-migration has degraded the support systems provided by extended families. This is particularly true in terms of the provision of care for children and the elderly in rural areas. In the past, rural communities were able to fill the gaps left in the absence of government and business services but out-migration and population decline have diminished their ability to do so.

As demographic change continues to have a significant impact on Newfoundland and Labrador, creative solutions need to be found to address the needs of the increasingly elder, female, rural population. If steps are not taken to ensure that women have the means to provide for their economic security as they age and if younger families are not encouraged to return to the province to provide the services older people need, then demographic change will continue to have devastating social and economic impacts preventing us from achieving the goals of prosperity and self-reliance.

Conclusions and Recommendations

One of this province's strengths is the history of women's significant contribution to their communities. Our weakness is that women's contribution has not been fully recognized, acknowledged or supported in government policies and programs. If, as a province, we are going to see growth in the economy, the development of new sectors and the return of young families, policies have to be developed that facilitate the balance of work and family, that reward individuals for the caring work they do and provide for the physical, social and economic security of the aging population. In order for Newfoundland and Labrador to achieve prosperity and self-reliance, women's specific needs have to be considered and incorporated into the blueprint for the province's future. The long-term cost of ignoring the social, economic and political challenges currently facing Newfoundland and Labrador far exceeds the costs associated with implementing policies to facilitate change. The following are the specific policy directions that need to be included in such a blueprint.

Inclusion of Women in Decision-Making

Encourage women's participation in decision-making by:

- **Continuing to uphold commitments to the principle of gender equity.**
- **Addressing the conditions that have prevented women's involvement in decision-making including, but not limited to, the lack of accessible and affordable childcare and discriminatory attitudes such as the perception that women are not interested in economic development.**
- **Recognizing the skill and knowledge women possess, both formal (i.e. gained through education and paid work experience) and informal (i.e. gained through personal experiences and unpaid work) in criteria used to appoint members of government boards and in competitions for paid positions.**
- **Incorporating the realities of women's lives into our understanding of the issues (i.e. the relationship between unpaid work and economic development).**

If plans for the future of Newfoundland and Labrador are to meet the needs of women, the women of the province need to be included at all levels of decision-making. A concerted effort is needed to encourage women from various backgrounds to participate on boards and commissions and in government at the municipal, provincial and federal levels. At present, "[t]he support that is there for men to be involved is not there for women. Childcare is an issue; attitudes of the community are an issue; support from the family is an issue. All of these things play a role in keeping a woman out of economic development and out of leadership roles" (Pond 18). Although governments have made a commitment to the principle of gender equity, little has been done to change the conditions that have prevented women from participating in decision-making in the past. These barriers to women's involvement in decision-making must be removed. For example, the responsibilities for unpaid care that many women have should be taken into consideration with regard to meeting times and the provision of financial compensation for the cost of finding alternative childcare or eldercare.

The removal of barriers to women's participation in decision-making also requires a shift in values to recognize the knowledge and skill women possess. The experiences of women, whether gained in a professional context or through unpaid work within their homes and communities, are relevant to social, economic and political decision-making. If women's needs are to be met the particular realities of women need to be incorporated into our understanding of the issues. For example:

> A definition of community economic development which assumes women matter includes the following: redefining productivity (to reflect women's unpaid work in the community); multiple bottom lines (looking at successes in terms other than just financial, for example from health, safety, personal

> development perspectives); developing collective resources (highlighting co-operative links between businesses and communities); and inclusivity (developing frameworks and strategies which include women and ensure their participation in CED planning and implementation).
>
> (Muzychka 7)

By redefining our understanding of the issues to include women's concerns and removing additional barriers to women's participation in decision-making we can ensure that our vision of prosperity of self-reliance does not exclude half of the population.

Improving Women's Access to Training and Education

Increase women's access to training and education by:

- **Removing barriers preventing women from accessing existing programs by, for example, ensuring adequate levels of financial assistance are available and that eligibility criterion do not exclude women.**
- **Supporting the development of opportunities such as distance education and part-time studies that allow women to balance training or education alongside other priorities and responsibilities.**
- **Designing programs that recognize women's educational needs and build on existing knowledge and skills.**
- **Supporting programs that create a greater awareness among young women of the training and educational opportunities available with a particular focus on non-traditional occupations and fields of study.**

At present, one of the barriers preventing Newfoundland and Labrador from attaining prosperity is a shortage of skilled workers to meet the growing needs of new industries such as oil and gas. Women represent an untapped resource that should be developed. In order to do so, barriers preventing women from accessing existing training programs should be removed and the delivery of training should be evaluated to ensure that it meets women's needs. Similar strategies need to be employed with regard to higher education in general. Women need to be encouraged to pursue a full range of training and education options so that whatever opportunities present themselves in Newfoundland and Labrador, women will be able to participate fully.

As previously discussed, women's unpaid caring responsibilities need to be considered when designing class schedules and determining levels of financial assistance required. Increasing the availability of distance education and part-time studies is one way of facilitating women's involvement in training and education. The relevance of women's existing skills should be acknowledged and built upon in the learning environment. As the Federal/Provincial/Territorial Working Group on the Status of Women and Labour Market Officials on Education and Training suggests:

> Analysis, recommendations, and principles must not work simply at 'fixing' women or adding to or subtracting from training programs. The objective should be to encourage us to rethink training and arrive at a place where training fits women, meets their needs, supports achievement and success in the labour market and empowers women to participate in future economic decision-making and activities.
>
> (9)

However, improving women's access to training and education will only produce results if it is accompanied by measures to help improve women's ability to participate fully in the labour market.

Improving Gender Equity at Work

Improve women's position in the labour market by:

- **Removing current barriers to women's participation by, for example, instituting accessible, standardized childcare and eldercare options.**
- **Rewarding employers who implement realistic flexible working arrangements and make them available to all employees. These could include but are not limited to job sharing, a shorter work week and teleworking.**
- **Ensuring that women receive equal pay for the same or similar work by moving from a complaint driven model to proactive enforcement of the legislation.**
- **Providing a provincial top-up to maternity and parental leave benefits and reducing the number of hours in employment needed to qualify.**

In a survey of 757 women in Newfoundland and Labrador completed by the Women's Policy Office in 1997, 66 per cent said that the government had a role to play in addressing their concerns related to work.

> When asked what government should do, the most frequent response was that they should establish more child care centres (98). Seventy-seven respondents indicated that government should take a role in better work opportunities for women including more full-time work and increasing minimum wage, and 62 suggested government should improve working conditions such as increasing awareness in the workplace, providing educational opportunities, and helping to balance work and family responsibilities.
>
> (Lacey 11)

By removing barriers to women's labour force participation we can address the shortage of skilled workers. Perhaps the most significant barrier is women's responsibility for unpaid caregiving. With thinning family networks resulting from widespread outmigration, more women in Newfoundland and Labrador are facing the challenges of balancing unpaid care responsibilities and employment. Both government and employers will have to address this concern because, as Luxton argues:

> If women are forced to leave the labour market to provide caregiving, the current shape of the labour market will be disrupted and the size and shape of the Canadian economy would have to change substantially. As previous experiences have shown, if women are out of the labour force for significant periods of time to provide caregiving for children and others, then those women are permanently disadvantaged, at risk of living in poverty for extended periods, and in need of a variety of protections, training and re-entry assistance when they rejoin the labour force. Policy initiatives that facilitate women's labour force participation and their work in social reproduction, such as a national, high-quality, comprehensive child care system, will in the long run be less disruptive and less costly.
>
> (65)

For a province that needs an influx of skilled workers in order to see sustainable economic growth, quality of life incentives, including a range of family-friendly policies, could encourage young families to choose Newfoundland and Labrador as a place to live and work.

More families than ever before are dual-income. This means that it is no longer enough for employers to try to entice the single, male worker with purely financial incentives. Government and corporate policies need to reflect the reality that both men and women are workers as well as husbands, wives and parents. Young families will only be enticed to Newfoundland and Labrador when there is gainful employment for both partners as well as access to programs and opportunities for their children, including affordable, standardized childcare. The in-migration of young families is essential to the development of a skilled and diverse labour force, a sustainable and vibrant economy and a prosperous and self-reliant province.

Encourage Women as Entrepreneurs

Encourage women to be entrepreneurs by:

- **Ensuring that women have access to start-up funds, which requires that lending criteria be developed to recognize the knowledge and skill women possess both from paid employment and education as well as personal experiences and unpaid work.**
- **Developing training opportunities that meet the specific needs of women in business.**
- **Reducing barriers preventing women from becoming self-employed including their current exclusion from maternity and parental leave benefits.**

The growth of the economy in rural areas of Newfoundland and Labrador is dependent on small businesses. Appropriate supports are needed to allow more women to become small business owners. Women need to be able to access capital, which requires that lenders begin to recognize the skill and knowledge women possess. Lending criteria need to reflect an understanding that relevant experience can be gained by informal means outside of the business community.

The barriers women face when entering the labour market in general are intensified when women go into business for themselves. Women entrepreneurs find themselves without access to adequate training and with conflicts between their paid work and family responsibilities. These barriers could be reduced by implementing training programs that meet the particular needs of women in business, providing accessible and affordable childcare options and extending maternity/parental leave benefits to self-employed women.

Supporting Women as They Age

Ensure that women are supported as they age by:

- **Rethinking programs like the Canada Pension Plan to include the social and economic value of unpaid work.**
- **Restoring access to services in rural areas by, for example, establishing mobile offices to serve rural communities on a rotating basis, using technology (i.e.: video conferencing and on-line access to services) to make services accessible and providing support for those who need to travel to local service centres.**
- **Developing homecare as an industry with two main goals; (1) to ensure that quality care is both affordable and accessible for women in all areas of the province and (2) that women employed as homecare workers are fully supported and adequately compensated.**

With the growing number of elderly women in Newfoundland and Labrador it is vital that measures are put in place to ensure that the aging population has the means to support themselves and access necessary care. One method of doing so is to revamp the Canada Pension Plan to recognize the contribution of unpaid work. There are a number of examples from other countries of ways in which informal caregivers might access pension plans. Finland, Austria, Germany and France all allow caregivers to attain employment status and accumulate pension credits. This type of recognition for individuals who do caring work is extended in Sweden to include time spent in childbearing. A shift such as this to allow individuals to continue to accumulate credit towards social benefit programs when they are undertaking unpaid caring work may help to eliminate some of the disadvantages women face under the current organization of pension credits.

The Canadian government has implemented a Child Rearing Drop-Out Provision under the Canada Pension Plan. Under this provision, months of low to zero earnings spent caring for a child under the age of seven may be excluded from the calculation of your pension. This ensures that reduced earnings during the first seven years of your child's life will not result in lower future pension benefits. However, this provision does not go far enough to greatly improve women's economic situation as they age. As fewer individuals are covered by workplace pension plans, the Canada Pension Plan will have to go further to ensure that women as they age are not living in poverty. This requires an acknowledgement of the differences in the lives of men and women and recognition of the social and economic value of unpaid work.

As many elderly women in Newfoundland and Labrador live in rural areas it is important that, despite declining populations, these areas continue to have access to services. This requires the development of cost-effective means of providing services to small, isolated populations. Related to this is the development of homecare as an industry to meet the needs left by thinning family networks and to provide women with options that alleviate the need for them to take on more responsibility for unpaid caregiving. Workers employed within the homecare industry should also be able to benefit from working conditions and compensation on par with other healthcare professionals.

Endnotes

[1] In 1992-93 women made up 53 per cent of those enrolled in a full-time undergraduate program (Thiessen and Nickerson 27).

[2] The same is true at the national level with 19 per cent of women over the age of 15 in Canada reporting some hours of unpaid care to seniors (Statistics Canada *a*).

[3] The median income of women over age 65 in Canada falls in the mid-range when compared to other OECD countries. For example, women in Italy and Sweden earn 81 per cent of the income of the working age population while women in the United Kingdom earn only 59 per cent.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

The Strategic Importance of Newfoundland and Labrador to Canada

— Gwynne Dyer

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The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Newfoundlanders have rarely thought much about the strategic importance of their homeland, because they have spent their history as only one smallish part of either a world-spanning empire or a continent-wide federal state. The strategic thinking was largely done elsewhere, in London, in Ottawa and sometimes in Washington. It is still being done (though it would be untrue to say that those capitals currently devote a great deal of time to the issue), and Newfoundlanders should be aware of what the thinking is.

In the broadest sense, geopolitical importance comes in three major forms: military, economic, and national/political, and to a large extent it lies in the eye of the beholder. The question is not just whether a given place is important, but TO WHOM.

There is also the question of when. The strategic importance of a place will wax and wane as military technologies and economic modes change. To come to the specific case of Newfoundland, it was of limited military importance to Britain and its European rivals in the 18th and 19th centuries, became very important militarily to the United States and Canada in the middle decades of the 20th century, and has now receded again in its importance to those latter powers – and indeed, to all the major powers – so far as military strategy is concerned.

Economically, the pattern is almost precisely the reverse. There was an early peak in the region's importance in the 16th and 17th centuries, when the Newfoundland cod-fishery was a commercial mainstay of western England and the Labrador whale-hunt was a main source of income in north-western Spain. The largely sea-based economy of Newfoundland shrank to a relatively much smaller role as European settlement and exploitation of the North American continent moved further westward in the 18th and 19th centuries. Within the more limited context of Canada, however, Newfoundland's relative economic importance has risen steadily over the past several decades as its traditional maritime resources have been supplemented by new or newly relevant mineral and power-generating resources.

On the national-political axis, Newfoundland's status within the British empire was never very high despite the rhetoric about it being 'Britain's oldest colony' (England's oldest colony, really, as the acquisition of Newfoundland long predated the creation of the United Kingdom). Policy-makers and publicists in London never saw Newfoundland as a jewel in the imperial crown, mainly because so many larger and more lucrative places fell under British rule in the succeeding decades and centuries. By contrast, Newfoundland's political and emotional importance to Canada has generally been high since the 1940s, and was almost always greater than it was for Britain. For geographical and historical reasons, the country called Canada which grew out of the North American colonies that remained with Britain after 1783 was incomplete without Newfoundland, and although the Canadians did not spend the years after 1867 pining away for Newfoundland, the final act of Confederation in 1949 was widely felt to be a homecoming. By the conventional measures of political accountancy, this may seem trivial, but in real human terms, and therefore in real political terms, it is not. What is more important than family?

Newfoundland's recognition factor in the rest of the world is quite low, and barely extends past the four topics of seals and codfish (both bad, these days), oil (mostly good), and nature untamed (very good). This should not be regarded as an unmitigated failure – how high is the recognition factor for Manitoba or Maine? – but investment and tourism would both benefit greatly from an improvement in this area.

To consider Newfoundland's military importance in greater detail, we must begin with the implications of its geography. It is an island, far removed from all major centres of population and wealth, and it only acquires strategic importance when the prevailing military or transportation technology makes its position relevant. Despite its striking location at the extreme north-east of North America, closest of all to Europe, that has not usually been the case.

Within half a century after the first European voyages of exploration in the late 15th century, maritime technology had improved to the point that ships crossing the Atlantic had no reason to call at Newfoundland unless they had business there. Indeed, prevailing winds made it preferable for westbound ships to drop well to the south before beginning their voyages across the Atlantic.

Eastbound voyages typically followed a more northerly route for the same reason, but the icebergs and fogs encountered south-east of Newfoundland for much of the spring and early summer every year made it desirable not to swing quite that far north on the trips back to Europe. Despite the many attractions of St. John's and other south-easterly harbours in Newfoundland, they were not normally ports of call for the many thousands of ships that travelled across the Atlantic between mainland North America and western European destinations each year during the age of sail.

The underlying technological factor that shaped this reality was the fact that sailing ships, whether merchant vessels or warships, were relatively self-sufficient over the ranges and sailing times involved in Atlantic crossings. They used no fuel, and they did not require intermediate stops to take on other supplies. Although England/Britain, the dominant power in Newfoundland for the whole of the period between 1500 and 1900, was at war with other European powers that had navies capable of operating in the open Atlantic on many occasions amounting to a total of well over a century during that time, Newfoundland never became a major British naval base nor even an area for marshalling merchant convoys (which were rarely used before the age of steam). Minor military campaigns were fought in the Avalon peninsula during the era when France still controlled Placentia, but they were mainly about control of the local fisheries and amounted to little more than skirmishes in wars that typically also saw far bigger battles on the North American mainland, in the West Indies, and in the East Indies, not to mention on the main battlefields in continental Europe.

Newfoundland's strategic importance began to rise with the advent of steamships and other power-driven vessels, for two reasons. One was that ships that no longer depended on the prevailing winds all tended to take the shortest Great Circle route between North America and Europe, which passes just south of Newfoundland. The other was that machine power made submarines possible, and submarines were able to attack merchant shipping without first establishing naval superiority on the surface. At the same time, the Atlantic sea-lanes had become vital to Britain in a way they never were before, for by the time of the First World War Britain imported a large proportion of its food and industrial raw materials.

Despite the fact that the British navy had enjoyed unchallenged dominance in the Atlantic for over a century, suddenly its shipping became vulnerable to enemy action by submarine – and Newfoundland acquired a new strategic importance.

To minimise the depredations of the U-boats, it became essential in wartime for merchant ships to travel in convoys escorted by warships – although the Royal Navy resisted this conclusion for almost three years of the First World War – and so St John's became a naval port second in importance only to Halifax on the eastern seaboard of North America. The convoy system that was reluctantly instituted in 1917 proved so effective that it was instantly re-introduced with the outbreak of the Second World War in 1939, and throughout the six years of that conflict 'Newfie John' played a vital role as the principal western terminus and turn-around port for the escort vessels that shepherded the convoys carrying the resources of North America to Europe across the U-boat-infested North Atlantic.

Between 1941 and 1945, most months saw between 50 and 60 Canadian and British destroyers, frigates and corvettes stopping in St. John's to rest, re-stock and refuel.

If there had been a Third World War, St. John's might have played that role again – or it might just have been nuked at the start of the war, for the strategic environment was changing again. During the years of the Cold War, say 1948-1990, it was never clear whether a NATO-Warsaw Pact war in Europe would remain non-nuclear for a significant period of time, allowing for a high-speed reprise of the Battle of the Atlantic, or whether the major ports on both sides of the Atlantic would simply be destroyed by nuclear weapons in the first days of the war. In the post-Cold War environment, however, there is no prospect of a third Battle of the Atlantic, and Newfoundland and Labrador has ceased to be of much importance in naval strategy.

Newfoundland and Labrador has experienced a similar swift rise and subsequent collapse in its importance to aviation in general, and in particular to nuclear strategy. Before Alcock and Brown's flight from Newfoundland to Ireland in1919, no aircraft had crossed the Atlantic. From then until the mid-1950s, most trans-Atlantic flights required refuelling stops at airfields in Newfoundland or Labrador, and Gander and Goose Bay – both built during the 1940s – had a significant military role as transit points for aircraft shuttling between North America and Europe. Newfoundland also served as a base for maritime reconnaissance aircraft patrolling the western North Atlantic during the Second World War and well into the 1970s, principally from the US naval air base at Argentia. But the peak of its strategic importance came in the late 1940s and 1950s, for it happened to occupy an important position on the shortest Great Circle bomber route between the Soviet Union and the main cities on the Atlantic seaboard of the United States. That was why the United States decided to hold onto the bases it had been granted in Newfoundland during the Second World War after 1945, and to expand them into bases for US interceptors. At the time, Soviet bombers carrying nuclear weapons represented the major threat to American cities in the event of war.

At the height of the US military presence in Newfoundland and Labrador, from the late 1940s to the late 1950s, the five large American bases in Stephenville, Gander, Goose Bay, Argentia and St. John's represented a significant portion of the province's economy – and even a significant social and demographic influence, because of the high rate of marriage between US servicemen and Newfoundlanders. It was a relatively short-lived phenomenon, however, because the advent of intercontinental ballistic missiles (which could not be intercepted) in the late 1950s made it pointless to go on trying to intercept Soviet bombers. The US Air Force bases were all closed by the early 1960s. The US Navy base at Argentia was drastically downsized in the late 1970s and finally closed completely in the late 1980s.

By 1990 Newfoundland had largely fallen off the military map again, and in 2003 the only remaining military activity of any importance in the province is the Royal Canadian Air Force-NATO facility at Goose Bay, whose principal role is low-level flight training over the relatively sparsely populated spaces of the Labrador interior for the air forces of European countries whose dense populations will not tolerate such flights at home. Though highly controversial in Labrador, these flights earn Canada both money and diplomatic credit abroad, but they hardly qualify as strategically important.

Nobody will ever invade North America through Newfoundland or launch attacks from here against other parts of the world, and the North Atlantic is unlikely to see any more battles so long as the major powers on either side of it remain friendly. In the early 21st century, Newfoundland has returned to its traditional position as a peripheral place in the minds of military planners. Given what has befallen some strategically important places in the course of major wars, this is not entirely a bad thing.

From an economic point of view, there are two questions to be discussed: Newfoundland and Labrador's contribution to Canada's geopolitical position in the world, and the impact that ongoing changes in the world economy may have on Newfoundland and Labrador's future role on that larger stage. In the former context, the province's strategic importance to Canada cannot be measured simply by the amount of tax revenue or the additional jobs generated for the Canadian economy because of Newfoundland's decision in 1948 to join Confederation – although it could certainly be argued that the largest single economic impact of Confederation was to shift the bulk of Newfoundland and Labrador's imports permanently from Britain and the United States to Canada.

Strategic importance is about the human and natural resources located in a given region that are of critical importance to the national or global economy, but are not widely available elsewhere.Regions that concentrate on agriculture or light manufacturing, for example, generally have low strategic importance because these activities can occur in so many different places. Scarce mineral resources or abundant hydro power, on the other hand, can make an area vitally important to an entire national economy – and so can concentrations of rare human skills, like the combination of financial and negotiating skills that makes the 'Square Mile' of the City of London the most important single asset of the British economy.

In the very earliest period of European contact with Newfoundland, there was of course no North American economic context, but Newfoundland had considerable significance in the rapidly developing economies of western Europe. The oil derived from the Basque summer whale-hunt along the southern Labrador coast in the late 16th and early 17th centuries was important all over Spanish-ruled Europe and provided a major stream of revenue both for the towns of the Iberian coast and for the Spanish crown.

The English cod-fishery on the Grand Banks financed by the Bristol merchants in the same period was a major factor in that city's rapid growth to second-largest in England. However, neither industry had any real relevance for Newfoundland, which had little resident European population at that time. Indeed, the much-touted value of the Newfoundland cod-fishery as a 'nursery for seamen' for the British navy in the 17th and 18th centuries actually depended on restricting settlement in Newfoundland, since the human resource that really interested the navy was sailors with deep-sea experience who were available in England.

It is hard to identify any resource in Newfoundland that was of key strategic significance to Britain during the entire colonial period. The fishing industry was useful, particularly in providing a cheap source of protein for the slave population of the Caribbean during the 18th and early 19th centuries, but the Grand Banks fishery was just the richest of half a dozen Atlantic fisheries that yielded essentially the same products.

Neither Newfoundland forest products nor, in a later period, the various mining ventures that sprang up on the island filled any special economic niche in the British empire; they just supplemented supplies available elsewhere. Indeed, as the old mercantilist doctrine of imperial self-sufficiency in trade fell into disrepute and the American market gradually became less accessible to British imperial products, Newfoundland found it increasingly difficult to make a living by exporting a rather commonplace array of primary products. At no point did it enjoy the attention that British strategists once lavished on the sugar-rich islands of the West Indies, or later on the gold of southern Africa or the oil of the Persian Gulf. And the non-maritime parts of British North America had virtually no economic relationship with Newfoundland during the colonial period despite common membership in the British empire.

That situation had not changed as late as the 1940s, when Newfoundlanders were debating Confederation with Canada, with the sole exception that Canadian trade with Newfoundland grew greatly during the Second World War while its traditional sources of supply were otherwise engaged. Ottawa saw the Newfoundland cod-fishery as an asset, certainly, but only one more to add to its existing fisheries in the Maritimes, on the West Coast, and on the Great Lakes. It was aware of the significant hydro-power potential of Labrador, though the long distances the power would have to cover to market made it a problematic resource to develop, and it was wrongly persuaded that the island had a promising future as a refuelling stop for the burgeoning trans-Atlantic aviation market. But it would not be true to say that Ottawa viewed its newest province as a potential gold-mine.

The delivery and sale of Churchill Falls hydro-power to the southern Canadian and US markets marked the first major step in the physical integration of Newfoundland and Labrador resources into the national economy, and the gradually increasing exploitation of Labrador's mineral resources, from Wabush iron ore to the giant nickel deposits of Voisey's Bay, helped to shift attitudes in Ottawa further. But the biggest single factor in changing Ottawa's established view of Newfoundland's economic importance to the rest of the country was the long international negotiation about the offshore 'exclusive economic zones' of maritime states that concluded with the Law of the Sea treaty in 1982. When your fishing and seabed mineral rights suddenly jump from three miles offshore to 200 miles, the province with the longest seacoast -- Newfoundland and Labrador accounts for over a third of the total Canadian coast that is ice-free for at least six months of the year – is bound to jump in its strategic importance too. The start of work on the first of Newfoundland's offshore platforms confirmed that the province now had a new and distinctive role to play in the national economy.

Although Atlantic offshore oil, like the Alberta tar-sands that constitute Canada's other largely unexploited reserve, is relatively expensive oil to produce, its strategic value to Canada is bound to grow in a world where the traditional sources of imported oil are becoming increasingly unstable. It is impossible to predict the availability and price of oil over the mid-term or even near-term future, given that the political uncertainties in the world's principal oil-producing region, the Middle East, grow greater with each year that passes, but the sheer uncertainty of the situation must raise the perceived value of Canadian-controlled oil reserves in the eyes of any prudent Canadian government. Other seabed mineral resources may one day come into their own, new onshore mineral reserves will doubtless be developed as well – and if the cod-fishery should ever recover, it will be a far more valuable resource than before, for the relative value of ocean fish is climbing rapidly relative to other commodities. For the foreseeable future, however, it is the oil that gives Newfoundland and Labrador a new relevance and importance in Canada's national economic strategy.

The progressive transformation of the economies of the developed countries away from the heavy industrial pattern towards a lighter, information-rich model is also creating a new geopolitical opportunity for Newfoundland and Labrador outside the national confines of

Canada. The four main times zones of North America and the three time zones of Europe, the two most highly developed regions of the planet, are separated by a minimum of five hours time difference and a maximum of 10. The office hours of New York and Paris overlap by only two hours; Calgary and Berlin are never in the office at the same time. This is a reality that cheap and instantaneous means of communications do not erase; rather, they make it more of a nuisance. There is only one English-speaking place which is effectively a mid-Atlantic island bridging all those time zones, and that is Newfoundland and Labrador. There are bound to be opportunities here, though precisely what they will be is for (hopefully local) entrepreneurs to figure out.

One other new geopolitical reality – or at least travel reality – is also worth mentioning. The institution of direct flights from London to St. John's on most days of the week means that in practice it is now quicker and easier to get to Newfoundland and Labrador from most destinations in western Europe (all of which have early-day flights to London connecting with the trans-Atlantic flight) than it is from most parts of the United States. It is literally possible to leave Munich or Moscow at breakfast and be in Battle Harbour for supper. The major focus of the Newfoundland and Labrador tourism industry will doubtless remain oriented towards the south, but at the upper end of the market there is a major new opportunity in Europe.

Finally, the intellectual and artistic capital of the province has been growing at a faster rate than almost anywhere else in Canada. Memorial University is now generally acknowledged to be the premier English-language university east of Montreal, and Newfoundland and Labrador has become a centre of innovation in high technology almost without noticing it. The cultural visibility of the province has risen even faster: writers, painters, musicians and films are making Newfoundland's special history and character known on the national and international stage as never before, and creating an attraction that brings artists here from all over the world to attend events like the biennial choral Festival 500, or even to settle here. The term 'cultural industries' is not just a conceit: places where large numbers of people in these industries choose to live – and far more than most people artists are free to choose where they live – benefit greatly from their presence even in straight economic terms. Newfoundland and Labrador is now approaching critical mass in this area: that is, the point at which so many people in these fields already live here that they constitute in themselves an attraction for others to come and join them. This is a development to be encouraged by any means available.

The most difficult dimension of geopolitical importance to measure is the national/political element (which also embraces the mythological and the sentimental), but it is sometimes also the most important. That is probably now true in the case of Newfoundland and Labrador's relationship to the rest of Canada. It was certainly not the case in Newfoundland's traditional relationship with Great Britain. Like all empires, Britain depended on the fact that people at the periphery of the empire had an emotional attachment to the centre, but it was never much reciprocated. Successful empires are run on calculation, not on sentiment, and London's calculations never gave Newfoundland a very high rank in the list of imperial priorities. It was a useful source of raw materials and fish, and once in a while of cannon fodder, but that was all. In the 1930s London engineered the suspension of Newfoundland's self-governing status rather than let it damage the empire's credit rating by going bankrupt. In the mid-1940s, when the time came to return control to the local population, London's main concern was that Newfoundlanders not humiliate the empire by expressing a desire to join the United States.

The British decided to hand the colony to Canada in order to avert that outcome, and Ottawa's decision to take it was largely driven by the same consideration.

Canadians had been very interested in having Newfoundland join at an earlier time. Newfoundland representatives were invited to the very first of the conferences leading up to Confederation, in Quebec City in 1864, and although it soon became clear that most Newfoundlanders were not irresistibly attracted to the idea, the 'fathers of Confederation' were so persuaded of the desirability of including Newfoundland within the new country that they made sure the British North America Act provided for Newfoundland's eventual admission to the Dominion of Canada if and when it so desired. Even at that time, their motives were less economic than geopolitical and sentimental: they instinctively felt that ALL the British colonies in North America should be joined in the new country in order to give it an air of completeness from the start, and without actually knowing many Newfoundlanders, felt a certain kinship to other British subjects who had been born in North America. The Newfoundlanders of that generation, however, were not interested.

In practice, it took a number of years to bring all of continental British North America within the borders of the new dominion, and decades more before all nine provinces emerged within their present borders. During the period between Confederation and the Second World War, Canadian interest or even awareness of Newfoundland was generally low except at the time of the Labrador boundary dispute, whose settlement in Newfoundland's favour in 1927 reminded some in Ottawa of the unfinished business in the east. Canadian awareness of Newfoundland grew further during the Second World War, when many Canadian servicemen and women were based there, and then soared when the forthcoming end of the Commission of Government was announced shortly after the war. The years 1946-48 were the only time that Ottawa was ever impelled to weigh the pros and cons of having Newfoundland join Canada, and it is quite instructive to consider what counted and what didn't.

The best summary of Ottawa's view of the economic value of Newfoundland to Canada at the time of Confederation is a memorandum to the federal cabinet from the special Cabinet Committee on Newfoundland Relations dated June 16, 1947 and marked 'Secret'. The memorandum began by pointing out that in addition to increasing Canada's population by one-third of a million people "of English and Irish extraction with a relatively high birth-rate" and adding an expanse of land larger than Sweden to the Dominion's area, union with Newfoundland would substantially increase Canadian trade. (Newfoundland was at the time Canada's eighth largest foreign trading partner). "On the other hand, if Newfoundland did not become part of Canada and obtained from the United States special economic concessions in return for defence concessions, even the minimum of trade that Canada would maintain if Newfoundland remained separate would have to be revised downwards, and it is likely that Canadian trade with Newfoundland would be reduced to a small proportion of its present volume."

On the cod-fishery, Ottawa believed that "not only are the Newfoundland fisheries a potential source of wealth, but if Newfoundland became part of Canada it would be possible to avoid some of the disadvantages rising out of the present severe competition between Newfoundland and Canada in fisheries. On the other hand, should Newfoundland turn to the United States, the economic concession in which it is most interested would be entry of Newfoundland fish to the US market....If Newfoundland were successful...it would hit very hard the market for Canadian fish there...."

On other resources, Ottawa was more tentative. "The natural resources of Newfoundland and in particular of Labrador are still to a large extent undetermined although there has already been substantial development on the Newfoundland mainland [i.e. the island] in connection with pulp and paper and with iron mining....In Labrador...a very large deposit of high-grade iron ore has been found which, in view of approaching exhaustion of present US sources of supply, may in future prove to be of very great importance....In addition, a very substantial amount of waterpower is available in Labrador, the largest single undeveloped site at Grand Falls [later Churchill Falls] being capable of over one million continuous horsepower, which would compare favourably with horsepower currently developed by the Ontario Hydro Electric Commission at Niagara."

This statement of the economic case for union between Canada and Newfoundland was not unfavourable to Confederation, but the Canadian federal cabinet was not going to be swept off its feet by the prospect of having some more fish, some more forests and a few mines. Almost any part of the planet as big as Newfoundland would have SOME interesting resources; this particular suite of resources, while attractive enough, was not overwhelmingly desirable. The trade issues were of greater immediate importance, but again were not big enough to be decisive.

Pro- and anti-Confederates came up with different balance sheets on the union of Canada and Newfoundland at the time, and continue to do so today, but it's clear that nobody in Ottawa in 1948 saw Newfoundland as either an economic bonanza or a crippling drain for Canada. The new province, economically speaking, was neither Kuwait nor Sierra Leone, but just another New Brunswick – a New Brunswick with hardly any francophones, which didn't entirely please some people in Quebec who saw the whole thing as a plot to tilt the English-French balance in Canada a little further in favour of the English-speakers. And while the perception has grown in recent years that Newfoundland and Labrador's resources are, or at least soon will be, a significant economic asset for the country as a whole, even now that is not a dominant factor in the way that other Canadians view us. So what was it that ultimately made the federal government in Ottawa so keen to have Newfoundland, and ordinary Canadians so positive about the prospect?

Ottawa's strongest motive for supporting the Confederate cause in Newfoundland and offering reasonable terms to the prospective new province was fear that a Newfoundland which regained its independence might pass into the control of the United States relatively quickly. This was not merely a question of transit rights, although there was a mistaken belief at the time that airports in Newfoundland and Labrador would be indispensable for the post-war trans-Atlantic airline traffic that was then just getting off the ground, and nobody wanted Canadian flights to Britain and Europe to have to stop in US territory. It was not a matter of military geography, either, for Canada and the United States were in the process of becoming close military allies at precisely this time. It was mostly about psychological geography.

Look at a map of Canada, and you will observe that it is entirely bordered by the United States on the south, but also largely bounded by American territory to the west. British Columbia's Pacific coast extends for only about 600 kilometres north from Vancouver, after which the Pacific coast is American all the way to the Arctic Ocean, while Canada's western frontier for the next 1,500 km. is with Alaska. Now imagine what Canada would look like if Ottawa's nightmare of Newfoundland independence rapidly giving way to US statehood had actually come to pass.

Canada's Atlantic coast would then present a similar picture to its truncated Pacific coast: 500 km. of Nova Scotia coastline from Yarmouth to Louisbourg, then the US state of Newfoundland blocking almost the entire mouth of the Gulf of St. Lawrence, followed by almost 1,500 km of international frontier between Quebec and the US all the way up to the northern tip of Labrador. The practical consequences at the time would have been small, for no doubt the Cabot Strait would have remained open to shipping of all nations, but the psychological impact on Canadians would have been huge: apart from the Arctic frontier, their country would have been virtually surrounded by American territory.

Were Ottawa's fears unrealistic? Not if you look at the evidence of contemporary Newfoundland opinion, or consider that Newfoundland had far closer traditional ties of trade and migration with the 'Boston states' than with central Canada. Add in the fact that there were US military bases all over Newfoundland and Labrador at the time, providing a huge boost to the economy and further orienting Newfoundlanders towards the United States, and it becomes clear why both Britain and Canada were determined that no form of association with the United States should be allowed to appear among the choices on the referendum ballot in 1948. That was one reason why Ottawa saw it as very important that the referendum should be held BEFORE responsible government was restored (though the likely effects of 'party politics' on Newfoundland's negotiating position over the terms of Confederation also figured in its calculations).

In the same document quoted above, the Secretary of the Cabinet Committee on Newfoundland Relations wrote in 1947: "Should Newfoundland remain outside of Canada, the present United States ascendancy in the Newfoundland-Labrador region will almost certainly increase and might very well lead to a virtual withdrawal from the area by Canada in favour of the United States. Although it may be argued that Canada would have little to lose by such a development from the point of view of defence, this would inevitably point to absorption of Newfoundland within the American orbit. This absorption might hinder Canadian air communication with the United Kingdom and Europe and would certainly make Canada's freedom of action on her north-eastern borders almost entirely dependent on the goodwill of the United States.

"The possibility, in due course, of closer affiliation of Newfoundland with the United States should not be discounted. Such affiliation might take the form of either commercial or political union and might be brought about as a result of the growing prestige of the United States in Newfoundland, the attractiveness of the United States as a free market for Newfoundland products and by a desire on the part of the United States to further strengthen its position in the Newfoundland region. Such a development would even more certainly bring about the conditions depicted in the preceding paragraph and would, as mentioned earlier, have undesirable economic consequences as well."

In a free vote in 1948, Newfoundlanders might well have chosen some kind of link with the United States leading to statehood – and Canadians both official and unofficial would have regarded that outcome as a disaster. They would not have done so for military reasons, nor for overwhelmingly powerful economic reasons either, but mainly for emotional and psychological reasons having to do with their perceptions of their own nation's future independence. When we think about the strategic value of Newfoundland and Labrador to Canada, we need to bear this in mind, because this sort of consideration can be even more important, in the real world of politics, than easily quantifiable military and economic calculations.

So Canada and Britain collaborated to ensure that the option of association with the United States was not among the choices offered to Newfoundlanders in 1948, and that the choice for or against Confederation must be made before Newfoundland regained its own government. Achieving the right outcome in the referendum was seen by both Ottawa and London as a matter of sufficient importance to justify a considerable expenditure of effort, and even perhaps a little manipulation. But it worked, and though there was some bitterness in Newfoundland at the time, half a century later solid majorities among both Newfoundlanders and Canadians are happy with the outcome. The transformation is particularly striking on the Canadian side, for while the feelings of Canadians about Newfoundland and Labrador were focussed mainly on the geopolitical picture in the late 1940s, by now they have actually got to know Newfoundlanders. On the whole, they are very pleased to have them.

Among English-Canadians, at least, Newfoundlanders have come to be seen as a slightly different breed of human beings who add interest and value to the Canadian mix. This has little to do with the tedious stage Newfoundlander' phenomenon; Newfie jokes notwithstanding, there is a clear perception among urban Canadians in particular that both the place and its people are in some sense special. If you were to press them as to what that really means, they would reply using words like 'authentic', but also words like 'articulate' – not picturesque rural idiots, but people whose ideas and values have substance, and who know how to express them. If your most important possession is your reputation, then Newfoundlanders have not done badly over the past half-century – or at least we have done well at distracting attention from what we have done badly.

In any renegotiation of Newfoundland and Labrador's relationship with the rest of Canada, legal questions would occupy the foreground, political considerations would fill most of the space behind, and geopolitical issues of the kind I have discussed here would be deep background: the scenery on the stage, so to speak. But setting the scene is important, even if the scenery is rarely mentioned directly in the play. So how important are the geopolitical assets that Newfoundland and Labrador would bring to the table in any debate or negotiation about its relationship with the federal government and the rest of Canada? Importance is always relative, so a better way to ask the question is: in what respects do these assets differ from those that the other five relatively small provinces of Canada have to offer?

The assets, or at least their relevance, may change over time, but at the moment they consist of very significant natural resources, some of which are available in only one or two other parts of Canada; a rapidly growing reputation as a centre of artistic, cultural and intellectual creativity; a geographical location which briefly had military importance, continues to be important in terms of the country's vision of itself; and might become interesting economically; and a collective place for Newfoundlanders in the Canadian national consciousness which, while impossible to quantify, is a major asset in itself: New Brunswickers and Manitobans do not have that kind of profile.

Do the other five provinces with population of one million or less have comparable assets? It would be both lengthy and tactless to do a province-by-province comparison, but it is safe to say that Newfoundland and Labrador would do well in such a comparison. On the other hand, it has done very poorly in terms of catching up with the rest of the country economically: while incomes have gone up everywhere over the 54 years since Newfoundland and Labrador joined Canada, the differential between average incomes in this province and in Canada as a whole remains virtually unchanged – and very large. Latterly there has been impressive resource-based economic growth in the province, but it is mostly 'jobless growth', and the province continues to hemorrhage population. Add in the shattering effect of the closure of the cod-fishery on so many coastal communities, and the overall picture remains grimmer than in any other province.

Was this in some measure due to the specific terms of Confederation as negotiated in 1948? It is futile at this distance to engage in a debate on whether Confederation itself was a better economic choice for Newfoundland than either a restoration of its independence or association with the United States – too much water has flowed under the bridge by now, and those options are no longer open – but there is certainly a strong case for saying that the disaster that has struck the cod-fishery is largely due to the federal government's mismanagement of the Atlantic fishery over the past 54 years. It is hard to believe that if a locally based government had had the main responsibility, the situation would have been allowed to get so bad, for the fishery always provided a large proportion of Newfoundland and Labrador's GDP and an even bigger share of its employment. The Icelanders, who were in a very similar situation but as a sovereign state had prime responsibility for their own resources, saw the problems coming, took early and strong measures (including two 'cod wars') to stop the damage, and still have a thriving cod-fishery. In Canada, where the Atlantic and Pacific fisheries combined comprise just two percent of GDP, the growing threat to the cod-fishery was never given that kind of political priority by the federal government whose responsibility it was.

It is always difficult in a federal state for the central government to grant privileges or concessions to one province, however special its circumstances, without facing demands for compensation from all of the others, but if a determined government in Newfoundland and Labrador wanted to make a case for extraordinary measures by the federal government to help the province escape from its multiple disadvantages, there is now a certain window of opportunity. The province can make a legal case for seeking exceptional treatment because the terms of Confederation were negotiated between St. John's and Ottawa at a time when Newfoundland had not recovered its sovereignty and was operating under severe disadvantages vis-à-vis both Britain and Canada. Because of Ottawa's leading role in the destruction of its main traditional industry, it also has a moral and emotional case that is now widely recognised in the rest of the country.

There may therefore be some leeway at the moment for a special deal for this province that might not trigger the usual demands for compensation from all the other provinces.

Such a deal, however, would have to relate very specifically to Newfoundland and Labrador's special problems and opportunities, and could not simply involve a transfer of funds. While we cannot compare directly the negative impact on the province of past federal management of the fisheries and the probable future costs to Newfoundland and Labrador of the current federal regime for off-shore oil, these are clearly similar situations, and it may be possible to persuade both the federal government and the Canadian public that a change in the latter arrangements to the benefit of Newfoundland and Labrador is necessary and appropriate. This is well worth exploring, but at the same time it is important not to focus only on the federal-provincial relationship. Most of the solutions to our problems lie in the hands of our own people.

Royal Commission on Renewing and Strengthening Our Place in Canada

We Can Do Better, We Must Do Better

— Ross Reid

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

This paper is an attempt to look at Newfoundland and Labrador in the Canadian federation through the perspective of Canada in the world; how others view us; how we see ourselves in the context of the world and the implications that should or could have for the federation and Canadians generally. It is a personal view moulded by nearly 30 years in politics in our province and country and by nearly 10 years of living and working in places like Ukraine, Kosova and most recently Afghanistan. In that time I have worked directly with political and community activists as they try to build democratic institutions and a civil society that can nurture and encourage activism by people who believe they can contribute to their communities and countries becoming better places. Most of the places I have worked have either gone through dramatic revolutionary changes or emerged from tragic conflicts, or both; my counterparts have had to muster courage and strength to match their commitment and determination. Many have failed but most have succeeded. All of them looked at the challenge on the basis of what was possible, often in the face of systems and powerful people who believed or desired that the goals of the reformers were not achievable. Success comes to those who know what they want and are able to articulate the goal and how to realize it; individuals and groups who can convince their neighbours and their leaders that the lives of their countries and their people can be made better by doing things differently. Demands do not work, designs might. More often than not it is a long and frustrating struggle but one worth waging.

Success Abroad

It seems to me that our country and province are at a crossroads. We know as we start the new millennium that the country is not working as well as it could, more importantly, not working as well as it should. Many other Canadians share the frustrations that we as Newfoundlanders and Labradorians feel towards the political, economic and social conditions in the country. We have a choice: Do we content ourselves with being mediocre, taking satisfaction that "the UN says we are the best place in the world to live"? Do we give up on the whole country and lose something that clearly we all cherish or do we try and do something about it? Surely we try and do something about it.

There is no doubt that if we as Canadians could see ourselves as others see us we would have a completely different attitude towards Canada and what it means to be Canadian; there is no doubt that if we as Canadians could see what it means to be a Newfoundlander and Labradorian we would have a completely different attitude.

The sacrifices of Canadians and Newfoundlanders and Labradorians in both world wars are well known to Europeans and as peacekeepers we have made friends and loyal allies from Korea to Afghanistan. Our artists, scientists and entrepreneurs are stars around the globe. We have played a vital role in developing and leading a number of international multinational and multilateral institutions, most especially the United Nations. Our contribution to development and international assistance has long been misunderstood and underestimated by Canadians but not our partners in the world's poorest and most needy nations. For years we were seen as the leader of the "middle nations", providing links between the super powers and from them to less and underdeveloped countries. Around the world we are held up as a bastion of democracy, civility and compassion. It is no coincidence that for more than a century we have been the country of choice for millions of immigrants, displaced persons and refugees and the fact that we are the most multicultural country in the world is a testament to the esteem of so many across the globe and the generosity of Canadians.

For years we have been quick to respond to tragedy, hunger, disease and most types of deprivation. Canada's human and financial resources have fed the hungry of Africa, rebuilt devastated Central America and cured the sick all over Asia. We have been innovative and creative; encouraging community-based development, decentralization of authority and the empowerment of the most needy so that they can play a direct role in their own future and building their societies. Our commitment to "Human Security" has made sure that we focus our efforts to reduce poverty and provide peace and security by supporting programmes that promote basic human needs like education and healthcare, peacebuilding, human rights, good governance, democracy, private sector development and economic reform. We insist that those who are to benefit from our support are directly involved from the design to the delivery of the programmes. The premise is that no one is better able to advise and design solutions than those most affected by the problem and that involvement assures ownership and therefore much greater commitment to projects and initiatives. Surely we can combine these same principles of dignity, respect and inclusion with our skills and institutions to make this country truly a nation to be envied by all.

There are some interesting parallels between our province and country. Our fishery is in a state of collapse but we know as much about fish and fishing as anyone in the world. Our fisheries production and technology companies operate around the globe; The College of the North Atlantic operates in Qatar, of all places. Fishermen, union officials and entrepreneurs have shared their skills with developing countries on several continents and our bureaucrats have advised many governments. We have skills in oil and gas production, energy generation, communications, forestry, cold oceans and working in northern climates that have benefited many others. All of these and others provide opportunities in the future.

It has always fascinated me that so many of the institutions and processes that we as Canadians see as being broken are viewed by others as being a model for their own countries. Cameroon prided itself as being one of two truly bilingual countries, along side Canada. South Africa was very interested in our constitution as model for the new and vigorous post-apartheid country. We have shared the efficiency of our civil service with many countries including China and a number of post-Soviet states. Our system of elections and conducting them has been copied around the world. There are many similar examples. The rebuilding of Iraq provides a timely example of what might be possible. This tragic nation is emerging from a short but traumatic conflict after years of oppression and brutality. It is divided by religion, language and ethnicity and areas of potential prosperity are surrounded by those of abject poverty and little hope. A federation is one real option for the political stability of Iraq, a system of wealth redistribution will have to be found, and some way to protect and accommodate linguistic and cultural differences will need to be developed. Canada offers viable and successful models to address all three of these needs, models others envy and emulate.

Coming home to Canada for those of us who spend much of our time living and working in countries devastated by poverty, disease or conflict can often be frustrating and dispiriting when we see the difficulty we have addressing our problems and living up to our potential. It is not that others have so little, therefore Canadians should shut up and count our blessings. The sadness for me is that a country as lucky as ours, a country as wealthy and successful as ours, a country that has done so much for so many around the world cannot meet the true potential of Canada and her people. We can and should be so much better, we can and should learn from of all people - ourselves. When I see the successful solutions and contributions we have brought to struggling countries around the world, I wonder why we cannot do the same at home. I wonder why we are not able to apply the same values and principles of human security to our own people. I wonder why we cannot make the institutions that so many others venerate and that do work, work better for us.

The Will To Succeed

More than nine years ago my first adventure in this field found me in the very Soviet and wintry city of Kharkov, deep in eastern Ukraine where I was to conduct a seminar for activists and candidates on election campaigns. After nearly 20 years of politics and elections I could easily master the mechanics but quickly came to realize I could not answer the question, "why?" In all that time and activity I had lost sight of the principles of why politicians should speak directly to their voters, the importance of direct contact, the importance of the people we purport to represent. I have learned more about democracy in the last nine years than I did in the 20 that went before. To me it is not complicated, certainly not as complicated as we seem determined to make it. You see, I think more than anything Canadians have lost sight of why our country matters and why we should be committed to all of it. We have lost our sense of community, our sense of what it means to be Canadian and share a responsibility to Canada and other Canadians. We are more committed to our systems and "the way things are done" than the results they are supposed to create. When I think about Newfoundland and Labrador's role in Confederation and when I read the initial report of the Commission, what is demanded is not primarily a change in policy or an amendment to some law, but the desire and the will of the country and her leaders to actually understand the root of our problems, the effects they have on people, families and communities and try to fix them, only because it is the right thing to do. We do not understand that we are not meeting our potential and seem unwilling to imagine and strive for what is possible. We have the lost the will to be what we so badly want others to believe we are, the best country in the world in which to live.

All of the places I have worked have gone through some sort of crisis that has provided either the necessity or opportunity for change and the trick is in seizing the opportunity. Most countries or movements inside those countries have been successful because they have found allies and partners that share their commitment or will find mutual benefit in success.

Perhaps the next few years offer an opportunity that we have not had for a long time. We will have a new Prime Minister in the next 10 months, we have a new Prime Minister in Quebec who has based his mandate on making the Canadian federation work for his province, the Premier of Alberta has dismissed the debate on separation in his party with more proposals to change the role his province plays in the country, aboriginal leaders are promoting new and creative forms of First Nations governance, most national political parties are openly discussing reforming the institutions of governance because they simply do not work. Certainly there is no consensus on the maladies and less on the solutions but there is a growing belief that government is not working for all Canadians. There is no intent to pass judgement here except to say so no one is happy, so lets see this as an opportunity. Canada will not go through a civil war or a drought of catastrophic proportions that will pull us apart and surely we will not allow lethargy or lack of courage do the same.

Understanding Ourselves

The first time I went to Africa was by land, through 15 countries in six months. Most of those countries were as different from each other as they were from Canada. In the beginning one could only see the differences but very soon one was struck more and more by the similarities; we have so much more in common then we care to see. We need to see that all across Canada we share hopes and fears. Rural decay, the alienation of youth, the tragedy of aboriginal communities, concerns over healthcare and the challenges faced by women are felt in every city and hamlet in the country. The solutions are in those communities, if the people of those communities can recognize that we face common issues, share similar concerns, and then perhaps we can work together on solving them.

Sometimes I fear that we Canadians don't recognize ourselves. We have become a multiracial and mult-iethnic society that is more and more urban. For the three founding nations this has come as a bit of a shock and naturally we are feeling not a little bit threatened. For those millions who have chosen to come to Canada, in the last 30 years particularly, their source of identification has been split between Canada and their ethnic and familial roots. To me these changes are exciting and though difficult, provide us an opportunity.

How well do we really know each other? Sure this sounds like a cliché but it is an important question. First, how well do we Newfoundlanders and Labradorians understand each other? How much does the crowd in St. John's really understand what has happened in Notre Dame Bay in the last 15 years unless we come from there? What do the people who live in Labrador West really know about Gaultois? What do any of us know about the real challenges faced by our diverse aboriginal communities? I suspect the answer is we may not know all the details but we have a sense of the loss, the fear and the challenge. All across the country we know a great deal more about our own provinces than we do the rest of the country. No, we should not start down that angst-filled road of the Canadian identity, it is the way it is and again perhaps it is another opportunity.

There is no doubt music, theatre, cinema and television have made Newfoundlanders and Labradorians better understood by Canadians, at least better recognized and, after far too long, favourably. But what do they really know about life in our province, the devastation of the rural life, the tremendous economic and technical success stories, the fears of parents about their kids' futures, the desire of Newfoundlanders and Labradorians to stop getting cheques and handouts and the real sense of unfairness?

And what do we know about the aspirations of Quebecois who see their language and culture disappearing? The prairie farmer who will loose the land his family has worked for 10 generations? Or the family in Oakville feeling threatened by encroaching industrialization and all its implications?

Too many of the world's conflicts are caused by fear and ignorance. So often knowledge and understanding lead to compassion and then to action. We have debated the Canadian identity for far too long and really have ended up nowhere. In the end does it matter other than to realize we share a commitment to the country and to each other? The hearings of the Royal Commission confirmed that commitment in this province and I have no doubt we would find it across the country if we were to ask. The first step, though, is creating the desire to solve these problems. And we need to see that each of us is less because of those ailments, and each of us strengthened when another is strengthened.

The Way Ahead

What role can Newfoundlanders and Labradorians play in beginning to change attitudes in the minds of our leaders and our fellow citizens?

But what of the future of our province? The once life-giving cod fishery has collapsed, thousands are being displaced every year, huge parts of the province are being depopulated, communities are disappearing and a way of life is eroding before us. We have become frustrated that those few opportunities we do have, oil and gas and Labrador power are not helping us at our time of greatest need. It is not about getting more cash today; it is about what would seem fair and just in the country that strives so hard to bring fairness and justice around the world. It is about seizing the opportunity to stop a cycle of economic and fiscal dependence and begin a time of economic renewal and development suited to the realities of today and focused on the generations ahead.

There are no easy answers but the first step is no recognize that we can do better and owe it to ourselves and the world to try. We need the collective will to make difficult decisions and design effective solutions. If it is a matter of setting precedents that affect other provinces, perhaps they have legitimate concerns as well. If it is a matter of money, perhaps we have our priorities wrong. If it is a question of whether we have the mechanisms to move forward, then we need new mechanisms. We should know if we are unable or unwilling to look at the challenges facing Newfoundland and Labrador and those facing other Canadians. In the end it is not about systems or convention, it is about a country and her people. A country is nothing other than people and we are no stronger than the weakest. Each of us and all of us are better when we make decisions that reflect our long-held values of compassion, fairness, respect and decency. We bring this message around the world; it is time we brought it home.

May I offer some suggestions on some of the things we do to begin to develop the attitude we as a country need to develop before we can change our approach to making Canada a truly great country?

We have to communicate better. This does not mean more politicians going to Ottawa to plead our case. We have been doing it for years, explaining, arguing, pleading, begging, raging, demanding, asking, imploring, lobbying. It has not worked in the past and there is no reason it will in the future. We do not just need to tell Canadians what we are up against and how unfair this contract or that arrangement is but what it is doing to our people and therefore the country. We need to be able to articulate what is being lost and how much it matters and explain plainly and clearly that we are not asking for more of the same but something long-term and different. We need to correct so many of the misconceptions about what has happened to the people of our province and begin to put forward the creative options to make things better for us all. We need to be strategic as to who the audiences are: political leaders yes, but also opinion leaders, those who share our aspirations because they are going through the same challenges, such as Newfoundlanders and Labradorians living at home and across the country, Canadians everywhere. The message needs to go to people, they will demand that others who can act, will act. The messengers should be Newfoundlanders and Labradorians who are affected by the economic and social crises we face, our artists, our business, community and labour leaders, recognizable and credible people using the media, the stage, community meetings, universities, political party meetings and any other venue where people come together. The governor of Bethlehem has created a committee of more than 20 community, education, business, labour, religious, women and youth leaders to develop a multidimensional communications strategy to get that community's message to the world: tourists, investors, the Israelis, neighbours, donors, sympathizers and even detractors. It is just one example we can learn from.

We need to build coalitions of these same people to begin the debate, first by recognizing there is a problem in the country and expressing the will to address it. I have nightmares about First Ministers' conferences and Constitution Committee hearings. This should not be a gang-up of the unhappy coming into hotel ballrooms with a litany of complaints but a coming together of those committed to reforming the way the country works. The Royal Commission showed there is a will in our province for this approach; there is no need to think the same will does not exist in the rest of the country.

Without beating a dead horse, Newfoundlanders and Labradorians should continue the discussion started by the Royal Commission, investigating creative methods of community development, human development and economic development. How can we invest more strategically in communities, in young leaders, in new systems? We need to look past the accepted ways of doing things, and to people and places we have believed we have nothing to learn from.

More than anything we need to foster an attitude that we have an opportunity and an obligation to approach our challenges with an attitude of reaching excellence because that is what our country stands for. We need to create the belief that all Canadians can and should benefit from the wealth and prosperity of the country because that reflects our commitment to fairness, respect and dignity. We can show all Canadians that our sense of community is reflected in how we see Canada and that precious value is to be treasured by all Canadians as something that is important to us all.

We Can Do Better, We Must Do Better looks at the values and expertise that Canada has exported around the world to improve the lives of so many people and countries in need. It draws parallels between what we have done abroad and what we should do at home. Canada offers so much to the world that is good and has so many advantages at home, but as a country we are not everything we can be. Many Canadians, especially those in Newfoundland and Labrador, face economic and social challenges and are frustrated that as a country we are unable or unwilling to address; we can and must do better.

Royal Commission on Renewing
and Strengthening Our Place in Canada

Sense of Place:
Loss and the Newfoundland and Labrador Spirit

— Gerard Blackmore

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 313
This Place 314
Our Sense of Place 315
  What Sense of Place Encompasses 315
How We Came to Our Sense of Place 316
  The Natural Setting 316
  Ancestral History 317
What has Our Sense of Place Become? 321
  The '30s and '40s 321
  Confederation and Aftermath 322
Renewing Our Sense of Place 323
  The Anniversary of the Other Commission 325
The Impact of Loss 326
  The Past is Prologue 326
Our History of Loss 327
  The New Grief 327
Loss and the Grieving Process 328
  The Five Stages 328
  Grief Work 329
The Effects of Loss on Community 329
  The Negative 329
  The Culture of Blame 330
  The Positive Effects of Loss 330
Honouring and Celebrating the Spirit 331
  Animating Characteristics 331
  The Fighting Newfoundlander 332
  A Tradition of Benevolence 332
  Expatriates on the National Stage 333
Creating a Context 334
Reclaiming the Spirit 335
  Remembering Our Story 335
  Sharing Our Story 335
  Coming to Terms with Loss 335
  The Time for Resolution Has Come 336
The Royal Commission and Transformation 336
  An Event of Celebration 338
  The Final Document 338

Bibliography 339

There is for each of us
a particular place on earth
Where the earth reveals its mysteries

(Francois Mauriac)

Introduction

The historical geographer J. D. Rogers (1911) captured in the most lyrical of words the sense of this place:

> *Newfoundland from within reveals only a fraction of its nature. Its heart is on the outside; there its pulse beats, and whatever is alive inside its exoskeleton is alive by accident. The sea clothes the island as with a garment, and that garment contains the vital principle and soul of the national life of Newfoundland.*

Newfoundland and Labrador has always been challenged by history and the unpredictability of the sea. There was a perversity to the first settlement here. While colonists to Canada and North America were invited, encouraged and cajoled to come, we were refused any permanent entrance. Loyalists would be granted parcels of land to build and settle; farmers to the west were enticed with grants. Those who stayed here in the first two centuries of founding were not just discouraged from staying, they were forbidden to build near the sea where they worked; so adamant against settlement was England that the people sent to fish here were but faceless and nameless chattel enumerated for return voyages to England and Ireland. So those who founded this place began their life here under threat and risk – from courts and climate. As historian Shannon Ryan (1984) put it: "Newfoundland had always been a fishery based around an island; it would become a colony based on a fishery." The history of 500 years would see a people who began with an act of defiance end the second millennium too often in a state of reliance.

Yet the strength with which the people of this place would cling to its shores would engender a fierce spirit of attachment. The love of place would manifest itself in the words and actions of people in every bay and cove and inlet – from St. John's to the furthest tip of the peninsulas where they sought refuge and life. Despite servitude to distant rulers they would stay to build a country. Sir Robert Bond, perhaps Newfoundland's greatest political leader, put it most eloquently:

> *This island, which some of us love so dearly... may henceforth be hailed not only as our native land, but our own land, freed from every foreign claim, and the blasting influence of foreign oppression – ours in entirety – solely ours. (1904)*

It was Bond who had fought to reclaim Newfoundland's control over its fishery resources and restored to Newfoundland the fishing rights that had been so cavalierly granted to France and the United States.

Seventy-five years later Dr. Michael Staveley (1982) would write:

> *In any Canadian province... prosperity is largely a function of natural resource endowment over which the provinces have, by constitution, sole ownership and control. Fisheries, however, because they are mobile and a common property resource, are an exception to this rule. By entering Confederation, it was Newfoundland's misfortune to lose ultimate control of its most important resource industry... in the 1950's, benign neglect by*

Ottawa and internal structural problems arising from divided jurisdiction insured the fisheries would slip further into decay.

During the first three decades of the 20th century, Newfoundland would attempt to diversify. Pulp and paper mills were built in the central and western part of the island. Mining enterprises were developed in Bell Island and Buchans. But there was little or no return to the Dominion. The British and American companies negotiated contracts which had them pay almost nothing in taxes. The deals were shameful and the negotiators were shameless. The Gross Domestic Product of Newfoundland from 1915 to 1930 was impressive, surpassing the Canadian Maritimes, but it meant little to our financial security. (It would take nearly 60 years before a native Newfoundlander would direct any of the companies which operated so freely here.) The policies of enticement and appeasement developed in the 20s continued sadly into the 60s and 70s. As the century lengthened, Newfoundland grew more surely into a peripheral region of the world, and the so-called outports (a name used to distinguish the coastal communities from St. John's and, hence, hierarchical in nature) became peripheral to the government.

In 2002, after more than 50 years of Confederation, Newfoundland and Labrador has chosen to examine its relationship with Canada and to discern ways to strengthen and renew its place here and in the country. Jim Lotz (1971) of the *Institute of Social and Economic Research* had earlier written that "there is a tendency in central governments to the assumption that the problem is 'out there'… in the new vertical villages in the capitals and cities lie many of the sources of the problems of isolated areas."

We are in the process of searching for the source of our problems as well as for solutions that come from within – from our own reservoir of accumulated knowledge and talent: the experienced, the professionals, the researchers, the people. The information, data, and. insights that are gathered will be sifted, mixed and moulded into a form that allows for meaning and understanding. If, as F.L. Jackson (1984) says, "Five centuries of the plundering of Newfoundland's resources on the part of outsiders traditionally unconcerned with the advancement of the local people, has left historical bruises that are still clearly visible," then the time has come, finally, to assess what has been lost and to reclaim our place.

This Place

What is this place
which holds fast our hearts
and claims each of us for its own?

This place, Newfoundland and Labrador, extending over 230,000 sq. km. with the island portion accounting for one-third of the land mass, accommodates a population in excess of 500,000 which has been decreasing significantly over the last 20 years.

Along with the remarkable and ancient geography and geophysical structures of Newfoundland and Labrador, the peoples who came to live here also account for the extraordinary diversity of this place. The Aboriginals, comprising the Inuit, Innu, Mi'kmaq and Metis, date us back to a paleolithic age and a saga of glaciers and pilgrimages across ice.

The Europeans, coming primarily from the west counties of England, the southeast counties of Ireland, resisted the rules of their royals and the early unlettered governors; those who came from France waged war for the right to settle and to claim ownership of this place.

Our Sense of Place

What is this place
that keeps us in thrall
to ocean, to spindrift, to storm?

When we speak of a people's *sense of place*, we begin by describing how people respond to the community or place where they live, or once lived, and which they call "home." That *sense of place* includes what people know and understand about their community, how they respond emotionally to it, and how "the place where they live" helps determine their view of themselves as individuals or as a community. That sense empowers them to act.

What Sense of Place Encompasses

The place we hold dear provides for us an *emotional comfort* and puts us at ease. The *physical space*, the *contours of the place*, its proximity to and dependence on the elements – all immediately identify the place for us. We enjoy a *bond with the people around us*. In the place and out of the place we are joined with them. We carry the feel of the place and the look of the people within us. We have *formed community* with them.

The *stories, songs and music of the place are ours* and we are stirred by them. If our place is challenged, by word or deed, it is our *pride of place* which is challenged, and *we rise to defend it*. Our sense of belonging here is remarkably described by the *language of our place* – its *idioms, meanings, rhythms and cadences*. And all of us in the extended place of the province who share these physical, emotional, linguistic and social responses experience a *sense of connectedness* ***to each other*** and a *shared identity*. And this larger community becomes a geographical and spiritual harbour which provides us with haven just as readily as it launches us on new voyages.

That place where we live and from which we draw our beliefs, our convictions, our commitment, and our story, is a human and historical reservoir we effectively call "culture." And that culture, that sense of place, profoundly affects how we as individuals or as a community of people think of ourselves.

The core of our geographical and cultural sense of place has been passed down to us and affects what we do and what we think we can do. Examining it allows us to glimpse the origins of our strengths and our weaknesses. Hence, we can truly say that we are shaped by - and we help shape - our heritage. In 1915, shortly before he died in the Great War, the British Poet, Rupert Brooke, captured the truth that the land and the person are one:

If I should die, think only this of me:
That there's some corner of a foreign field
That is for ever England. There shall be
In that rich earth a richer dust concealed:
A dust whom England bore, shaped, made aware.

This understanding of our sense of place helps inform our very identity as a people, a community, a province. It mattered not to our people whether they were here or afar at work and war because they carried a wonderful Newfoundland proverb: *You can take the man out of the bay, but you can't take the bay out of the man.* And it is the level of comfort with our identity that will help propel us to - or inhibit us from – a whole host of personal and communal achievements both at home and away.

How We Came to Our Sense of Place

We are the peoples of sea and of land
Born of water and earth
Forged by the winds and the tides of this place
Proud in the land of our birth

The Natural Setting

Our rootedness in Newfoundland and Labrador has its physical origins in an ocean fruitful and terrible; in soil demanding and flinty; in rivers powerful and unpredictable. This sense of one's place comes from several types of experience in the given place:

- ***Physical Tenure of the Place***: To be born in the same place as your forebears for several generations and to have parents and grandparents reinforce in you their own sense of belonging in that landscape and community, with shared family names and familiar townspeople – a network that is strong enough to give each person in the community a sense of having a "right" to be there because they have earned that right through tenure.
- ***The Length of time*** you spend in a place as an integrated member of its social fabric is an integral part of one's sense of belonging; in Newfoundland and Labrador, many people can still trace relatives through two-and-three hundred years of settlement on this same land.
- ***Psychological/Spiritual/Social Belonging***: Growing up with stories of ancestors who have fought the on-going harsh climate and historically limited options (compared to gentler parts with more economic opportunity) instils a kind of loyalty toward those

who have gone before. Many Newfoundlanders and Labradorians feel that leaving this physical space is a kind of betrayal: we should stay and fight for this place.

We are not an agrarian people "living on fenced-in land and encircled by a prairie horizon," nor a people of steel and glass pillars. We settle now, as we did then, amid the vast silence, rivers and forests of ancient Labrador; we learned long years ago that if we reverenced the land, it respected us with its fruits and yielded to our traplines. And some of us still cling to the coastlines where the cold and forbidding North Atlantic rules. It is "the imprint of this wild, windswept ocean and the life that was built around the harvesting of its hidden treasure, that has sunk deepest into our soul and marked us for life."

It took the sea an hour one night,
An hour of storm to place
The sculpture of these granite seams
Upon a woman's face.

Rex Murphy writes: "Everything that has been of consequence or joy or sorrow to this place inevitably centres on the necessity which grafted us to a salt water trade. Our speech, our songs, our common memories, that disposition and temper we recognize as characteristically Newfoundland, flows almost genetically from the ocean and its life."

We have come to an unspoken understanding of our sea with its riches and its perils - a sea that served us (and which we served) from the very day we began coming here five centuries ago, a sea that in all that time has been exacting great human tariffs, a sea that prowls at our doorstep, filling our eyes, our ears, our nostrils. Consequently, we have difficulty in understanding how that ocean could come to be the domain and reserve of people thousands of miles away, people whose faces and minds are free of salt and scars, whose hands never dip into the North Atlantic, and who each spring recite to us their carefully measured regulation stories of the sea that they learned from afar, and then inform us in antiseptic letters just how long we can stay out there on that water, and when we must come in before the last, dark night falls.

Ancestral History

Our sense of our place - who we are, what we can do – has been and continues to be influenced by the peoples from whom we sprang. We have been affected as well as by the struggles, defeats and victories experienced in settling this place. Their roots – Aboriginal, English, Irish, French – and their own hereditary and cultural traits, commingled with and altered by their extraordinary experiences here, comprise the ancestral history handed down to us from generation to generation, from century to century, up to the present. And this ancestral tradition of people and story is transmuted into a distinct Newfoundland and Labrador sense of place, a culture, and, yes, a "spirit" which, while not physically tangible or defined, is no less real. This spirit (or "Newfoundland soul," which, Dr. Cyril Poole writes, we are constantly searching for) has, in varying degrees of intensity throughout our history, animated and sustained our people.

If, as commentators say, people are their culture; and if culture starts with the place where people find themselves; then, our people's sense of their place can be inferred from those words and terms which describe and identify the character and spirit of our people:

- ***Strength and Resilience***: Our people generated a life on vast stretches of forbidding land in Labrador. We settled and fished in the teeth of the North Atlantic, on unpredictable seas. Wherever in this place we lived, we often did so without direction, assistance or encouragement. We developed under our own Darwinian imperative.

> *Your average Newfoundlander is waterproof, dustproof, shock-resistant and anti-magnetic. Just as racehorses have been bred for legs and wind, he has been bred, over four hundred years, for durability... Acts of God and Royal Warrants weeded out five or six of every ten born into the world alive. This fortuitous distillation has left us an exceedingly durable race.*
>
> *(Ray Guy)*

- ***Defiance, Persistence, Pride***: In the face of prohibitions, rules and regulations, under threat of punishment, pain, and loss, all during the first 200 years of our existence here, our people persisted. In 1832 Newfoundland was granted Representative Government. People who lived and worked here might actually have a say in how the place functioned. Then in 1855 we achieved Responsible Government. Newfoundland was now "our place." For the first time since Caboto peered out into the mists of Bonavista, we were able to identify ourselves: we began calling ourselves "Newfoundlanders." And that term, one of respect, had currency here and across the ocean. By the end of the 19th century, ***we were a country*** and a thriving society, and we proclaimed ourselves as such to the world beyond us.

> *Newfoundland settlement, at origin, was an act of defiance. Defiance against imperial law. Newfoundland community was a continuous defiance against the unrelenting inhospitalities of climate and fortune. That defiance is being tried yet once more. The too familiar crisis of our present time, the potential disappearance of our tenacious and celebrated way of life, is the deepest challenge of all our 500 years. But then, challenge has always been the breakfast meal of choice of the people who live here.*
>
> *(Rex Murphy)*

- ***Self-reliance, Tolerance, Loyalty:*** Our people learned very early that, apart from an abiding faith in God, they had to rely mainly on themselves if they were to survive. They learned acceptance of their lot – not as servile acquiescence but as a means of not being conquered by outside forces. If the solutions to matters were completely beyond them, they learned "it's as well to laugh as to cry." The places they developed and the people who emerged – all were remarkable. A strong sense of community developed: people supported each other. They were fiercely loyal to each other - and to the motherland: the courage and commitment of our people in the Great Wars was disproportionate to the size of our place.

> *The simple foibles and dignities of family life, the valour and competence displayed in the daily contest with the sea and land, the religious celebration of a life closely bound to the vicissitudes of an unforgiving nature: these have been the materials of traditional cultural expression. A stern way of life coping with a merciless sea and even more merciless masters, has yielded a whole dictionary of unique expressions: a humour, a manner and a philosophy that is peculiar to these parts. A poetry of uncomplaining acceptance, relieved by a renowned capacity for drollness, has become second nature. Newfoundlanders have affirmed the measure of their humanity in a native personality attuned, not to cold bourgeois values of material progress and efficiency, but to the task of living life with courage, faith, charm, resourcefulness and wit under often near-barbaric conditions.*
>
> *(F.L. Jackson)*

- ***Adaptability***. They lived in the hinterland of Labrador, which shaped and modulated their existence and their activities. They would not only survive; they would be one with the land and waters. Along the coastline the resource was fish, so they became fishers. There were boats and ships needed for the fishery, so they built them, just as they constructed their houses and dug cellars. When they could not fish, they became loggers for the pulp and paper industry. Because there were no practical means of transportation and communication for the access of either materials and agencies, they became improvisers. If they didn't have something, they replaced or reinvented it. When the need for employment dictated they should leave this place, they did so. First, in the 1890s, then in the new century, and again in the "Thirties." To the Boston States, to Canada – wherever there was work. Our people became sailors and fishers under American skippers. They became first-class riggers of steel, oil field workers, miners, road-and home builders. Wherever competent and dependable workers were called for, our people went. They had learned well how to adapt.

> *A kind of core of 19th and early 20th Newfoundland fisherman could be found on the Northeast coast of the province. There was along this shore a complex of persons involved in a unique complex of fishing activities: inshore fishery, Labrador fishery, sealing, saw-milling and lumbering. They were people who were capable of successfully undertaking almost anything.*
>
> *(Dr. Michael Staveley)*

- ***Creativity, Distinctiveness:*** This place bred people who "cast a special eye" on the land, water and people around them; they interpreted the events that brought all three together. "Gifts of survival, the art of hanging on, the grace of making do, the deep music of a continuously difficult existence, hard, hard times – all having their genesis and growth in the accumulated heritage of ocean and man" helped establish an environment, a need, a compulsion, perhaps, for the dissemination of our own distinct story – in word, in song, in picture. No other place established under the aegis of the British Commonwealth has produced a larger and more impressive collection of its own music and song.

The talents for artistic invention - on a per capita basis - are nowhere more provident than in this windswept and frozen land of Newfoundland and Labrador. And yet, how could they not create? The stories, songs and poetry grew out of the isolation and the shared struggles against often demanding circumstances. Through their creations they could laugh at, grieve over, heap contempt on or retaliate against the "difficulties and the divils." And, more importantly, they were also chronicling the lives and events of their communities and, through oral tradition, passing down the story. Our own language and rhythms had emerged. In the continent stretching away to the west, there was no place quite like this place. There were no people quite like our people.

> *It is the purpose of the* ***Dictionary of Newfoundland English*** *to present the regional lexicon of* ***one of the oldest overseas communities of the English-speaking world****: the lexicon of Newfoundland and coastal Labrador as it is displayed in the sources drawn upon in compiling the work... Our guiding principles in collecting have been to look for words which appear to have entered the language in Newfoundland or to have been recorded first, or solely, in books about Newfoundland; words which are characteristically Newfoundland by having continued in use here after they died out or declined elsewhere.*
>
> *(G.M. Story)*

- ***Passivity:*** There are traits that leave us open to personal and communal submission. For passivity is handmaiden to benign "acceptance" - the tendency of our people during the poverty-and-privation periods of history to despair of finding solutions and to respond, "Well, that's all you can do; it's out of our hands." Too often in the coastal communities pessimism was "just around the point" from optimism. Resolve weakened and our people placed little confidence or energy in political or social agencies. Even as their hopes soared and wealth grew in the late 19th century, Britain was still handing over our coastal waters and lands to foreign countries. The United States was granted fishing rights, and up until 1904, a valuable and extensive section of our coastline was ceded to France as the "French Shore." We were being told where and how we could fish. Neither the people nor their leaders did much, and the one was not accountable to the other. Nearly a century later we are still being told…

> *One of the striking traits of Newfoundlanders is fatalism. It's in our songs and stories and sermons, its resides in our literature and newspapers and broadcasts. It derives from our centuries of dependence on the North Atlantic. He who would survive must learn to be part of the wind and water, rock and soil. Yet this deep, unlike the earth of the farmer, is never subdued and never mastered.*
>
> *(Cyril Poole)*

What has Our Sense of Place Become?

Our grasp of "our sense of place," our growing identity, our national self-confidence has always been tenuous. Just when we began to feel comfortable with "who we are," something beyond our control happened: the fishery failed, or the government fell, or war intervened, or national and global disasters like the Great Depression brought us down.

Perhaps we still feared the fates and the ocean. Our governance always appeared short of the mark, our leaders too often bound in shallows. Anchors never seemed to hold, not just in storms but even in petty squalls. Leaders, in times of tribulation, forgot too easily what we had become and were prepared just as quickly to barter that hard-earned sense of place for what we might, in the future, become.

The '30s and '40s

Historical commentators have suggested that even with the impact of the post-World War I fisheries collapse, the Great Depression and the attendant crisis in our government's finances, nothing prepared our people for the social, psychological and, yes, moral impact of the suspension of Responsible Government.

> *"The collapse of statehood in 1934 produced a dividedness in the Newfoundland soul. On the one side is our sense of possessing a proud heritage of national independence and a cultural golden age all our own. On the other side is the contrary feelings of failure and impotence, a sense of being an inconsequential problem-people."*
>
> (F.L. Jackson)

Perhaps we were neither able nor fit to govern ourselves. The belief grew that we were dependent on others. Our confidence was shaken to its very core. And our people were angry, but they were not sure who they should blame – the government or themselves.

We had a country, a pearl in the sea
Worn rich by toil and pain
And the pride that welled within our hearts
Shall never rise again.

We had a country we let slip away
Like a ship at early dawn
And the songs and glory that was ours
Will be silent now and gone.

(from New Founde Lande: The Musical)

Confederation and Aftermath

Then, in 1948, the people of Newfoundland and Labrador, by a marginal vote and influenced by political decisions and forces they did not then know, chose to relinquish Responsible Government, put aside their own national status, and become a province of Canada. And now, 53 years later, the people of the province, at the behest of their government, are seeking to discover what that choice has meant for, among many things, their understanding of their identity as a distinctive people. They are asking what that sense of place has become, and how they might reclaim it.

In the first 25 years of Confederation, the fishery was discredited and the people who prosecuted it demeaned. The fishery was the vocation of last recourse, the repository of Newfoundland poverty humour (in 1970 fishermen were receiving less than three cents a pound for the majestic cod!), and our most recognizable stereotype. Meanwhile, that fishery was now directed by people who might indeed be described as, at best, "indifferent" to a way of life that helped define our people and this place.

Observers have suggested that a new, less enduring sense of place has emerged. To the sturdy and comforting Newfoundland character traits that evolved over time might now be added another array of descriptive words and terms, unfolding through, or on account of, the history and events of our last 60 years:

- Loss of self-confidence.
- Dependence on public monies and government initiatives.
- Powerlessness - over our natural resources and our ability to change things.
- Feelings of being a "kept" people.
- Fading memory of our "story."
- Reduction of our place in Canada to caricature.
- Absence of Newfoundland & Labrador history as part of the pre-history of the Canadian state.
- Forgetting our sense of our own place.

Some observers of the last 50 years have suggested we have settled into a state of "cultural ambiguity." We have forfeited political and economic autonomy and, hence, psychological independence. Others, in a more impassioned and startling description, have said we have undergone a form of "cultural genocide." Such estimations demand our attention.

The Exiles

It is important to remind ourselves that the exodus of people from Newfoundland and Labrador is not primarily a function of Confederation or what has followed. People have been leaving this place since the 1890s. The leaving always began with the hope of returning. The reasons were economic: we shall go away to work, send back money, come back home when things get better. But as in all of life, "way leads on to way," and other roads are always taken.

Yet, the exigencies of our economics have created thousands of genuine exiles – people whose bodies are away but whose hearts have been left behind – in the coves, harbours and communities of family and friends. The times have urged our young, whether or not they are the "best and brightest," to build their futures in provinces, states and countries that need them and are prepared to provide fiscal (whatever about "cultural") security.

Fittingly, David Jacobson refers to those who leave as people *out of place*. "The sentiment of *exile* is the corollary of being rooted in native soil. The ache, aimlessness, and despair of exile, to be outside one's country, to be banished to the wilderness, is a deep and lengthy literary theme in human history. Weeping on the riverbanks and yearning for homeland has a powerful resonance in Jewish and Christian history... as well as in the touching stories of native peoples."

In the case of our own native daughters and sons who were forced to leave, the poignancy of their "living away" is captured in the song created by one of our performing groups, *Buddy Wasisname and the Other Fellers*. This group, like some latter-day cultural pilgrims, have travelled the country, entertaining and maintaining the lifeline to home. The singer speaks about the Newfoundlanders up in Sudbury coming to the concert and wanting to talk with them afterwards:

And I know how some of them came to meet
On one warm, clear April day
To see our show and to see us all go
And how we left and they stayed
And I know the tears in big Johnny's eyes
When our visit came to an end
And when Ray played one last familiar tune
I know how they waltzed once again.
So I'm not saying, "It's wrong to leave"
I'm not saying "It's right to stay"
All I know is, of all those who left
They talk of leaving again.

This out-migration, this "leaving home," seems inexorable. The expansion of our exile-community is reaching a point whereby the very sustenance of this place is being called to examination. Yet, does the going away have to be a sign of our "passing away?" Does the biblical *diaspora* of our people to other places have necessarily to be interpreted as the weakening of our culture?

Renewing Our Sense of Place

It is not the bones of our history that must be raised up; they merely point to a life now past, honourable and otherwise. We do not seek to launch again stately schooners to chase the fish under mythically courageous captains; we have learned to harvest our resource with science and wise technology. It is not relics we look to preserve or to sell to artless visitors and tourists; it is the people, pulse and history of our communities and these are not for sale for they are given freely. It is not ghosts we are searching for; it is the spirit which once animated the fierce and indomitable people who trod mud paths, set wise traps, fired hearths, scoured skies and seas for hope, and who fell and rose, again and again.

> *The real essence of a people's culture or sense of place is their spiritual and ethical idealism. It includes their spiritual as well as their material aspirations, their living morality, their responsibility for family and society, their will to community, and their relation to God.*
>
> *(F.L. Jackson)*

Renewing our sense of place, then, is not to go back; it is to launch out anew. We must reclaim the independent spirit which sustained us over our first 400 years. The traits of our people and our place are still there, ingrained now in our character, part of our spiritual bloodline. We may not have understood that. We may well have forgotten. We may even say we do not care. It does not matter; it is there; it is who we are. What we have to do is reclaim that heritage, that sense of place. Then we can begin renewing ourselves and our country.

From the minds of committed academics and citizens at Commission hearings; from research papers, journal essays, and newspaper editorials; the message comes:

> *"It is, rather, a question of how this profoundly inbred way of life, that fully possesses and is the Newfoundlander and Labradorian, can fare in the context of Confederation."*
>
> *"As for our young people... where they go, what they do... the problem is, no one is articulating the dream for them."*
>
> *"Canadians don't understand us. How could they? Who tells them? And we are sitting back and saying, 'We wish you knew.'"*

What the voices are saying is straightforward: teach them the history; let them, and all of us, own the story. And the "them" is ourselves, the people of the province; it is our children, our students; it is the people across the country, our fellow-Canadians.

- Our sense of place must be renewed and strengthened by ensuring that our ancestral story continues to be proclaimed, taught, and celebrated.
- The story of our self-reliance, our achievements, our contributions – and the people from whom and by whom they sprang and were accomplished - must be carefully articulated and providentially shared.
- Our provincial government through its departments of culture and education must renew its commitment to the promulgation of the heritage of Newfoundland and Labrador.
- We must insist on the inclusion of the history of Newfoundland and Labrador into the pre-history of the Canadian State.
- We must undertake a renewal and strengthening of the artistic and cultural community, both professional and volunteer, to allow for a new flowering of "Newfoundland and Labrador creativity."

The Anniversary of the Other Commission

It was on the recommendations of the 1933 Royal Commission chaired by Lord Amulree that the Government of Newfoundland voted to lay aside its power to govern its people and transfer almost untrammelled authority to a six-person Commission. Now in 2003, 70 years later, another Royal Commission is preparing recommendations for the Government of Newfoundland and Labrador. The appointments of both commissions were made at critical junctures in the life of Newfoundland and Labrador. We know the lasting effect of the first one. The impact of the present Commission must now be even more profound and influential.

For we are not now the same people who, shaken by the events of the winters of our discontent, waited like children for instructions as to how we should proceed – directions that were based not on the opinions and hopes of the people of the Dominion but derived from an already-determined agenda. Not so today. We are a stronger, healthier, surer people, better-informed, more thoroughly educated, and certainly less timid and compliant.

What is prepared for and presented to our people and the country must not be thin gruel. And the reason is clear: What we think of this place, its future, and who we are as a people may well depend on the distillation of the voices the Commission hears, the actions it recommends, and the vision it offers.

A Place of Hope

When we begin to understand who we are, where we come from, what is our story, the questions of where we go and how we manage will not appear so daunting or dispiriting. While we as a province wish to retain as many of our people, young and old, as we can, it is in the natural progression of things that people will seek further borders and wider horizons; they will be challenged by personal and national goals; they will be intrigued by the search for Heaven, Xanadu, Nirvana… or life's perfect trap berth.

If we can assist present and future generations of Newfoundlanders and Labradorians to understand their history and their culture; if our people can feel confident about their identity and their sense of place; if, truly, they can "own" their story, we who stay will not be incapacitated by their leaving.

The parents who raised them and encouraged them can feel comfortable that their offspring are bringing their gifts and their talents to another place; their children are sharing their abilities as well as their story and their heritage with others who will be more fortunate for knowing them. We will not have lost them or their riches; we are spreading them across the continent, seeing them grow and contribute; and we – parents, educators, leaders and, indeed, Canada itself - bask in a kind of reflected glory.

But they must know their story and the place which gives it life.

And for those of us who still remain, "the tides ebb, and here they flow." Our resources will be more carefully harvested, obstacles surmounted, and storms weathered because they must be. Our history continues, our sense of our place feels more secure, our children learn a story even richer than we knew.

The Impact of Loss

The reality of loss is, or will be, part of every person's life. Most of us have experienced the death of a loved one – parent, family member, spouse, friend. The first human response to the loss of someone or something dear is grief. Rando (1984) writes that "grief is the psychological, social and somatic reaction to the perception of loss." Psychologists and sociologists have noted, however, that the grief-response must not be limited to the fact of physical death; hence, the broader reference to "loss." The Grief Foundation applies the simple, working definition of grief as "the total response of the organism to the process of change."

What we have been experiencing in the province in a more dramatic way over the last 10 years is not merely a product of that decade. Rather, the effects of the last 70 years on the body-politic and the body-communal have taken their toll. Yet we have never carefully examined the profound impact that the events, decisions and outcomes have had on individuals, communities and the province itself. Much has been gained through Confederation; we even celebrated – more reflexively rather than reflectively - the union and its benefits, just three years ago. However, the task the Commission now faces requires a more thorough and sensitive analysis. For it will become increasingly evident that unless we dare to undertake a process of "grieving" for what we have lost, there can be no resolution or progress, either individually or collectively.

The Past is Prologue

The native Pueblo writer, Leslie Marmon Silko writes in the book *Ceremony (1974)*:

I will tell you something about stories
They aren't just entertainment
Don't be fooled.
They are all we have, you see,
All we have to fight off
Illness and death
You do not have anything
If you do not have stories

A thorough assessment of our past is critical. To suggest that we consign the past and its personal and collective wounds to some dustbin of history and attempt to "move on" might indeed appeal to the clinically detached who have no sense of connectedness to this place, its history or its people. But such a facile, business-model approach to genuine community and human difficulties is not only intellectually, socially and morally naive, it would leave us and this province, in effect, stalled yet again in the search for effective solutions – solutions which will be derived from a thorough understanding of what has happened. Comparable to the experience our province often faces from officialdom is the historically dismissive attitude displayed by government and institutional officials concerning the impact on communities of past scars and endured losses. Such attitudes prevented for countless years the advancement of and reconciliation with native peoples, the Black community, women and other struggling minorities. Socrates was correct over two millennia ago: The unexamined life is not worth living.

Our History of Loss

The reality of loss is not new to this place; loss is there in our history, our stories, our songs, our art. We settled and worked in perilous times and circumstances. We founded ourselves upon a provident but unforgiving sea. Coastal communities have long been familiar with fishermen lost at sea: schooners and their entire crews going down; doryloads of men and fish never returning; hosts of sealers perishing on the ice. Small communities were bereft of fathers, siblings and husbands. And yet, families and communities shouldered the burden, stolidly faced the sorrow and carried on. Living from the sea was what we did and, in a sense, who we were. Providence would sustain us, people in the community would support and condole with us, a new season would come, we would fish and work again. The loss of a loved one was personal and our people would respond to their grief, however inarticulately, and carry on.

The New Grief

Grieving the loss of loved ones was a process individuals and communities could undertake however imperfectly. But the people of Newfoundland and Labrador, particularly our coastal communities, were not prepared for the sense of loss that began in the late 1920s and continued to the end of the last century. The components comprise a range of historical, economic, and natural events: (a) The demise of the European fisheries markets in the 1920s, (b) the Great Depression, (c) the financial and moral collapse of the Bond government, (d) the suspension of Responsible Government and appointment of a Commission of Government, (e) the ceding of Dominion status for Confederation with Canada, (f) the handing over of direct control of sea and land resources, (g) the diminution of the place of the fishery in the economic and social life of the province, (h) the disappearance of communities, (i) the inexorable and incessant outmigration of our people, (j) the groundfish moratorium.

What resulted was the unstated and unexamined sense of loss felt by individuals and communities. Our hard-won ability to fend for ourselves and the seasoned determination to make our own living were gone or constantly under threat. The largesse promised and delivered from outside us, while greeted initially with enthusiasm and gratitude, has unwittingly and gradually eroded an extraordinary spirit of self-reliance, and has by slow degrees initiated in many of our people a culture of dependence. And the two singular events of the 20th century in Newfoundland and Labrador – the suspension of Responsible Government and the Groundfish Moratorium - were never effectively confronted, examined and resolved. (The shutting down of the codfishery and its impact on inshore fishery communities has served almost as a seal on the century and our fate.)

Once as a Dominion, then as a province, as communities, and, too often, as individuals we have never properly grieved what was lost. It is extremely important to understand that our disengagement from an effective grieving process helps account for our inability or refusal to confront our present social and economic conditions in a realistic, practical, and humane manner.

Loss and the Grieving Process

Some psychologists suggest a helpful equation to answer the question, What is grief and what produces it? Change = Loss = Grief.

1. A change of circumstances of almost any kind produces a loss which in turn will produce a grief reaction.
2. The intensity of the grief response is a function of how the loss is viewed. If the loss is perceived as great, the feelings of grief will be profound in equal measure.
3. Significant grief responses which go unresolved can lead to physical and sociological problems that contribute to community dysfunction across generations.

Elizabeth Kubler-Ross in her book *On Death and Dying* (1969) originally referred to the grieving process as the Five Stages of Receiving Catastrophic News, terminology which was mutated by practitioners into the Five Stages of Grief. There need be no myths about the five Stages; they are not immutable nor need a defined order, but understanding them and the process can be of enormous value in understanding responses that are common to us all as individuals or as members of a body or community.

The Five Stages

What happens when we encounter loss? What can be the resultant trauma that is produced? With respect to what has happened with the loss of the fishery, a way of life, and the consequent impact on communities, it is instructive to consider the five stages of human response:

1. ***Denial*** "This not really true; scientists and government are mistaken. It is only a matter of time before we get back what has been temporarily taken away."

2. ***Anger*** "I could see this coming. I should have got out long before this. The people in charge are responsible for this. I knew they could not be trusted. I am not taking this lying down."

3. ***Bargaining*** "If we can make some changes, things can be like they were and our livelihood will return. We have to hold meetings and see what can be done."

4. ***Depression*** "What are we going to do? That's the end of it now. I always knew this was going to happen. Don't know what we're going to do."

5. ***Acceptance*** "That's it. We're not going to be able to do what we used to. We are out of the news; people have stopped calling. Life goes on. And we have to get on with it. We have to sit down and talk about it, meet with people and decide what we do next."

The above is not a frivolous example. In fact, all of us in a myriad of ways constantly go through a similar process. Any serious change of circumstances in our lives causes us to react. The sequence of stages is not necessarily important; sometimes the stages occur simultaneously, and time phases differ in individual cases. Intensity and duration of stages depend on the significance of the event and how that change is perceived.

Grief Work

What is of greater importance is to realize when the grieving process actually occurs: only after coming to the stage of acceptance. The story has died, friends have stopped calling and condoling with you, and some form of closure has been initiated That is when the so-called grief work begins, requiring the person confronting the loss to undertake the following:

A. ***To accept the reality*** of the loss.

B. ***To experience the pain*** of the loss.

C. ***To adjust to the new environment*** without the lost activity, person or object.

D. ***To reinvest*** in the new reality.

Therapists have suggested that the first stage of grieving is *Acceptance*, the last of the five stages of loss. More emphasis must be placed at this point if we are to understand our loss and come to some form of resolution.

The Effects of Loss on Community

It is worthwhile to note that many of the losses we experience in life are what Viorst (1986) refers to as natural losses. Harvey and Miller (1998) have suggested that major losses and the accumulation up of such losses are the events that most tax the body and the spirit, resulting in negative responses from individuals and communities. Ironically, though, it is these same losses that can help explain the positive reactions by these groups and, properly understood and resolved, can lead to growth.

The Negative

People affected by loss who are not assisted in understanding and coping with the resultant trauma tend to adopt unproductive attitudes or modes of action:

- ***Immobility*** They cannot apprehend what has happened. They "freeze." They refuse to listen, examine or discuss what has occurred or is happening.
- ***Anger*** They invest their energies in striking back at the perceived perpetrator; they become verbally and/or physically aggressive, and the anger, private or stated, inhibits any productive value.

- ***Blame*** Those affected by loss often exhibit two types of blame-reactions: (a) They seek to focus their anger – and hence, the blame – against those who, in the hierarchy of their existence, are "above" them – those in positions of authority and power who should have done something to prevent what has happened; or (b) they place the blame inward, faulting themselves for their state, further eroding self-confidence, self-reliance, undermining their own worth and identity.

The Culture of Blame

The "blame response" deserves a more detailed examination, for in many ways, what has happened in Newfoundland and Labrador over the last decade, and the 50 years before that, may help explain why many in our province have allowed themselves to become part of a culture of blame – a culture that can deaden the spirit and suppress the resolve to action.

A. ***Blaming Others*** Because of the confusion over our perceived losses and the fixation at the stages of Denial and Anger, many of us, as individuals, communities and a province, have never come to *Acceptance*. Our sense of belonging to this place and way of life have been shaken to its roots and somebody has to be held responsible. Principally it has been governments, federal and provincial, heads of organizations, business leaders. The venting of anger and the casting of aspersions allows for "release," both physical and psychic, and brings a concomitant sense of satisfaction that "we let them know." Expressions of blame exhibit themselves in fierce diatribes, invective at public meetings, demonstrations, calls to open-lines, and in acts of passive-aggression such as withdrawal from public debate, saying nothing, pulling out of groups, and leaving the community – all with the anger still intact. All these reactions are perfectly understandable but fundamentally unproductive, and, in the words of the Bard, "full of sound and fury, signifying nothing."

B. Blaming Ourselves "We were never equal to the task. We somehow didn't do things right. We lack perception and the tough intelligence that is required to survive. We understand why people consider us inferior." This state is worse than one that blames others for it does not even afford the small satisfaction of having vented anger. We create or become part of a pathology of depression.

The tragedy in being absorbed in a *Culture of Blame* is that it pushes us ever deeper into a state of dependence; it saps the spirit of self- and community-reliance; it condemns us to the restoration of an ineffective past; and it deprives us of the will to take charge of our personal and communal lives.

The Positive Effects of Loss

Trauma, properly resolved, has the power to challenge individuals and communities to reclaim their lives and channel them in new and productive directions (*Janoff-Bullman, 1997*). The positive side of loss can include the following:

- Examining and valuing individual and communal strengths and understanding that we are capable of overcoming obstacles.
- Realizing that we have the ability to undertake new beginnings and create our own meaning.
- Coming to a deeper appreciation of the value of the ordinary and the true worth of one's personal life and that of the place in which one lives.
- Reassessing one's life and contributions and not taking good things for granted.
- Coming to a greater appreciation of others and what they bring to your life and community.

Understanding the Importance of Loss

In summary, to understand clearly how and why Newfoundland and Labrador has been profoundly affected and, in some ways, altered not only through actual loss but through its people's sense of loss, it is imperative that we come to accept the fact that as a people and a province we have not come to terms with loss. And unless and until we do, we shall never be able to deal effectively with the decisions and tasks facing us.

Honouring and Celebrating the Spirit

"Spirit" is the animating principle of living beings; it comprises the emotional attitudes and set of characteristics which distinguish people and groups, fostered and made vital over time and place. At its root, spirit means to "breathe life into." The spirit of this place has indeed been shaped by our history; our reclaiming of it has the force to infuse new life into our communities.

Animating Characteristics

The will to survive, to overcome storms (natural, social and economic), the ability to carve out life, to adapt to unfamiliar events and circumstances – all these became the stuff of our spirit. So, too, grew our intimacy with the sea and land, our sense of belonging here, our relationship with those in the place where we lived and where we had our ready identification with others who claimed Newfoundland and Labrador as home. And because, from our earliest days, capitulation to circumstances was never considered a choice, our people could do no other than develop a strong sense of independence and self-reliance, one that became ours as if by birthright.

That connection to our heritage is bred in the bone and, like our link to our history, has been passed on to us, whether we realize it or not, whether we care about it or not. It is part of who we are, part of what might be termed our collective DNA. It may be shaken but it is still there. That spirit of Newfoundland and Labrador is our common line, forged over thousands of years through our First Peoples and engendered over 300 years of European settlement. That sense of place and belonging is, above all, a gift. Just as some of us, by virtue of our parentage, are blessed with natural intellectual, artistic and athletic gifts – gifts not of our own creation – so too are we all endowed of this place.

The Fighting Newfoundlander

The wholehearted, if heartbreaking, participation by our people in World War I (and later in World War II) bespoke a loyalty to and a valued historical association with Mother England. No odds were too great, no distance too far, no enemy too powerful. Those sentiments and the unquestioned bravery in battle gave rise to the expression, the "Fighting Newfoundlander," an epithet that was appropriated by our people – and those outside us – to define a spirit that characterized how we, in less militaristic settings, faced and overcame obstacles. Observers readily agree that our involvement in, contribution to, and losses from the war effort were greatly disproportionate to our size and numbers as a country.

A Tradition of Benevolence

Through the centuries here, our people lived and shared midst a wonderful paradox: though clime and circumstance created a hardy independence in all of us, it also encouraged compassion, and so we believed that neighbours and strangers who faced difficult times depended on our kindness and assistance to make it through. Hospitality and openness became watchwords for this place. That particular facet of our spirit, too, became something that we took for granted. Others never have. A recent event, while dramatic in size and impact, is instructive.

A little over a year ago, with the horror of September 11, thousands of travellers were set down on our shores. They fled the skies and terror, and here in this province – on the east coast, in the central region, on the west coast, and in Labrador - they found a safe haven. People who perhaps might never have chosen to come to this place were suddenly among us. And what happened in that small period of time - in our lives and theirs – provides much for us to think about. The question those of us who are seeking to define our spirit might ask ourselves is not What did they learn about us? but rather, ***What have we forgotten about ourselves?***

What became most striking about the event was how many of those accidental tourists, in their spoken and written comments, said they were amazed to discover a place that greeted them so warmly, treated them so generously, and made them such a part of their homes and communities.

They discovered us by chance, and, if you listened carefully to what they were saying, they seemed to be telling us and others that they will never be the same again.

And yet, we here, in so many valuable ways, still remain the same. For what we did and how we responded were natural to us, without calculation, almost inbred. Our instincts were to trust, to help, to share. Almost none of the visitors spoke of the climate or the sun or the industry or the clever and ingenious things they saw around them. So what was it that moved them, in so many cases, to such an outpouring? We who are of this place think we know.

What touched them were the faces, the voices, the turns of phrase, the open doors and open arms; it was the stories, the music, the cherished culture, and it was all there in this remarkable place of land and rock and forest, shaped and informed by the sea. Those travellers seeking refuge landed in a place forged by survivors. (Yes, *survivors*: read our history; listen to our songs). And so, when they came frightened and uncertain among us, we made no distinction about their language or their customs or their place of origin. Why would we? They were people who needed to be welcomed and we took them in from the storm. They came as visitors; they left as friends.

There is a tendency on the part of some of us not to recognize the event for what it was – singular and revelatory. This gentle openness of heart is a manifestation of the Newfoundland spirit nurtured over time and insinuated into our character, and we often forget it is that spirit which fires our sense of belonging. James Defede, *The Miami Herald* columnist, certainly captures that sentiment in his book, *The Day the World Came To Town (2002).*

We must constantly remind ourselves that the most valuable tourism commodity we have here in this distinctive place called Newfoundland and Labrador is our culture and our spirit. Those are freely given and freely shared. And they are not for sale.

Expatriates on the National Stage

Equally disproportionate, in comparison with other provinces, is the number of people from Newfoundland and Labrador who have made extraordinary impacts on the national and world scene across a variety of professions. Perhaps the wellspring of creativity that has sustained our people was historically fed by the need and the will of our people to survive in insular surroundings, wild tracts of land, isolated outports, and all with little or no means of communication, not only with a vaster outside world but with communities only kilometres away. The people in these communities recorded their tragedies and small triumphs in narrative and song. They searched for and created their own unique images. They found their proper voice and shared it with others. The irritants of unpredictable seas and the winds ever so slowly produced pearls of creativity. The fickleness of climate and insecurity of harvest gave birth to a wit of resignation. Gifted leaders and artists emerged. And as such Protean talents developed, a far bigger landscape was required to stretch our people's gifts. And so they moved from here. The contributions they made, and continue to make, enriche the country and honours the place that brought them to birth and fostered their gifts.

- Across this Dominion and the world their distinction shines: In academe they serve as University Presidents, Deans, Department Heads and Professors; in medicine and science they are cutting- edge practitioners and researchers; they rule on provincial Supreme Courts; they provide inspiration in schools of theology and Divinity and direction in ecclesiastical congregations; they command at the highest level of our military; they are major forces and innovators in the business world; they map new paths to development and learning; in government they have influenced national policy, articulated innovative legislation and lived to write about it; they build roads and construct buildings with ingenuity and courage. And they have come from this place.

- In the more public arenas of arts, communications and media their profile and their work is of the first rank: They write the nation's stories and commentary through poetry, novel and essay. Their art compels viewers to a new vision of their place. They perform the tragedy and comedy of a nation's life. They produce the music, design the dance, sing the songs, perform the works which stir a sympathetic resonance in audiences of diverse and cosmopolitan tastes. And their craft was cultivated here.

Citing even a partial and random list of the names from past to present is a roll-call of excellence: E.J. Pratt, Gen. Terence Hearn, Gordon Pinsent, Donna Morrissey, Dr. George Ivany, Dr. William McGrath, Lisa Moore, Harold Russell, John Crosbie, Justice Gerard Hawco, Rex Murphy, Gwynne Dyer, Mary Walsh, William Carew, Great Big Sea, Patricia Murphy, Brian Tobin, David Blackwood, Wayne Johnston, Cathy Jones, Christopher Pratt, Bob Cole…

In a host of enterprises and initiatives which fuel the social, economic and industrial engines of Canada are a legion of young, bright, dynamic and competent expatriates from Newfoundland and Labrador.

All those who have chosen or felt compelled to leave this place have the grace of distance and the advantage of perspective. And make no mistake about it: they are still inextricably bound to this place. They are emotional about their connections to home and their sense of belonging. They remain fierce in this province's defence and are passionate about its future.

Creating a Context

There is no content without context;
There is no meaning without the mediation of one's story

The Royal Commission mandate states, in part: *We want to envisage what a prosperous and self-reliant Newfoundland and Labrador would look like in the next decade and beyond…* It is almost axiomatic that before one can help construct a rewarding future, an understanding of the past and the events which shaped that story is essential. And no past can be described without a thorough comprehension of the people of that land. That is why coming to grips with our people's sense of place, their sense of belonging is so critical in determining why, as the Commission consultation document says, there is so serious a gap between what we expected from Confederation and what we have achieved, and in a more combative setting, between the satisfaction of the Canada-first faction and the criticism of the new nationalists.

Therefore, as the Royal Commission prepares its blueprint for the future of Newfoundland and Labrador, it must do so by establishing a *context* for what they shall ultimately present. Our people's history, their love of place, their sense of belonging, their immense creativity, their fierce and distinctive spirit – these are the context for the findings of the Commission's research, the consultations with our people and groups at home and away, and the studied deliberations. The central issues of where we are now as a province, where we hope to go, what we recommend as a path to follow – those observations will gather their own credibility, integrity and force only to the degree that they are *grounded* not only in the data of sound research but also in the history and soul of this place. Only then will those to whom the Report is directed come to truly and fully understand how we emerged as a people, what were the events that altered our economic and social life and shaped our collective character.

Reclaiming the Spirit

Remembering Our Story

We, the people of this province, must also come to realize that we shall renew and strengthen our place here and in Canada only insofar as we understand the fierce and distinctive spirit that is our heritage, what it was, whence it came, what it has accomplished and the value it can afford us in our future. We must remind ourselves again of our story, the indefatigable spirit that is ours, the contributions that this province has brought and still brings to the country and the world. We must honour and celebrate this place.

Sharing Our Story

Our Canadian sisters and brothers and our federal government must likewise know who we are and why at this time we are making such enormous efforts to reflect on and examine our relationship with them, all with the goal of renewing and strengthening our place with them. And while there is a measure of resentment on our part against the often insensitive depiction of this place and its people, we must also remind ourselves of this reality: They view us as they do because they do not know us. And they shall never genuinely know us unless we tell them and show them; unless, as the Pauline Letter says, "We preach our message to them, in season and out." And having learned, Canada will, we believe, also come to honour and celebrate this place.

Coming to Terms with Loss

And yet, we must still come to terms with what we have lost: the control of our resources, our sense of independence and self-reliance, as well as the exodus of great numbers of our people and a diminution of our spirit and will. Then, and only then, can we as a province – we the people and those who govern, direct and serve us - begin the work of reclaiming that spirit. The task of coming to terms is one which can also be shared with our fellow Canadians.

The people of Newfoundland did not process the forfeiture of their status of a self-governing Dominion in 1934. Nor did we personally or collectively confront the loss involved in the laying aside of our country in 1949. And when we were faced with the closure of our groundfishery in 1992, we failed again – to our detriment - to reflect on the consequences of loss.

These three events were, in social terms, cataclysmic upheavals – each involving deep loss. These occurrences were what psychologists term major change-events which, by definition, should require informed and sympathetic direction. There was none. At each critical juncture of our history we were deflected from confronting the issue before us. To be sure, the type of social awareness we take for granted today did not prevail to any great degree 70 years ago. In 1934 our people and our government leaders were overwhelmed by a dire financial situation and a crippling poverty; we had neither the foresight nor the resources to reflect together, and there was then a serious disconnect between government and people. At the time of Confederation, whatever were the divisions between the contesting factions, there was at least the prospect, however fleeting, of federal monies, pensions and baby bonus. And in 1992, when the impact of the cod moratorium slowly dawned, those most personally affected were diverted once more by the receipt of financial programs of assistance and the faint hope that the groundfishery would reopen again in two years.

The Time for Resolution Has Come

Perhaps with the steady decline of the fishery, the dwindling of our communities and the out-migration of so many, we had reached a state of emotional exhaustion. It matters not the reasons for our avoidance. The truth is, we have never effectively grieved; we have never *bargained*. There has been only muted and unresolved anger. We have never undertaken any process that might move us to a state of acceptance. Apart from ill-considered post-moratorium training programs hastily prepared by the federal government, no group or organization - government, university, church, union or social agency - took the initiative to lead us through the crises to a form of resolution. Now the time has come. The Royal Commission can be the instrument that finally provides us with the authority and motivation. If we do not seize the opportunity to act now, we do so at our peril.

The Royal Commission and Transformation

Transforming how we view our situation and how we act involves first of all an understanding of ourselves and where we live and the mind-set under which we function (O'Sullivan, 1999). At the Commission consultation in Toronto, one of the expatriate participants spoke of the absolute need to "shift the habitual perceptions" of our people through a process of transformative education (Peddigrew, 2003). This approach is precisely what the Royal Commission has been effecting since it began its work last year. What has so far occurred through the activities of the Commission, and the initiatives that will continue to be undertaken, are acts which are, at their most fundamental, transformative:

- Research into and careful examination of our political, economic and social status – past and present and projected.

- Public consultations and the receipt of private presentations from people of every region of the province so as to provide them the opportunity to speak of their concerns and fears – to give our people a voice.
- Roundtables and forums with particular interest groups to ensure that accurate assessments of our situation are made and compelling needs are met.
- *The Dialogue on the Future Direction for Newfoundland and Labrador* - a daunting, courageous and necessary effort to learn in a more realistic manner how we take charge of our future.

This latter initiative, the *Dialogue*, is both commendable and significant for it takes the work of the Commission to a deeper and more demanding level. The process is not just about facts, opinions, observations, suggestions, complaints; it is the next stage, one which allows for the channelling of thought and theory into coherent and defensible action. The Dialogue is a microcosm and example of the process that will have to be repeated in some form throughout Newfoundland and Labrador long after the Royal Commission has issued its final report. The procedures and the personnel of such future dialogues may well be different and less formidable, but the process of resolving and accommodating will be even more valuable and necessary because they will happen where our people live.

Perhaps a recommendation of the Commission may be to establish a procedure and process whereby the Commission Report becomes the reference point and catalyst for continuing community and organizational dialogue and action across the province. Consideration might be given to the following:

- The Final Report of the Royal Commission must be shared with the largest possible audience.
- The people of the province must come to a sense of ownership of the Report.
- The Report must be made accessible and attractive.
- To ensure the widest possible readership there might be a Summary Form of the Final Report, comparable to the *Consultation Document* and *What We Heard* as well as effective use of the website, appropriate links and other ancillary materials.
- The Final Report should be disseminated, through some convenient and effective form, to the largest possible audience within the country.
- The Royal Commission Final Report must be celebratory.

> [*As an act of divergent thinking, consider for a moment how this province could become a place to which people from across the country and the world migrate: (a) This is a place of relative peace and serenity, attractive not only to international students but to all immigrant peoples: (b) we are a land which offers respite from "environmental torments"; (c) we have pure waters for aquaculture, a venture we have never seriously undertaken; (d) we have lands for the building of arboretums; (e) Newfoundland and Labrador can become, quite legitimately, a world heritage and environment centre.*]

An Event of Celebration

The celebratory nature of the Report will be authentic because it will represent the first stage of this province's forthright endeavour to rediscover itself and to reassess its position in Canada with a view to renewing itself and the country. It has taken us 53 years to get to this point, and what we have begun will be a demanding labour. But the Report is also an opportunity to celebrate and honour this place, its people, heritage, achievements and its considerable contributions to Confederation. The work of the Commission has the potential power to be transformative to the degree that it is an instrument that is used to help change minds and hearts here and abroad.

The release of the final document must not only be celebratory in nature but also in form. Any event, no matter how small, has the power to move and to change. So, too, the presentation of the Commission's Report. But first it must be treated as an event and then appropriately prepared, utilizing people, resources, and techniques to underscore the importance of the event. The work begun by the Royal Commission must be a revelation and celebration of the spirit that has, in varying degrees of force, animated us over 500 years; it is a call-to-arms for all of us in Newfoundland and Labrador to take responsibility for our future; it is a reminder of a history and a spirit whose light we have allowed to dim.

The Final Document

The preparation and presentation of the Commission Report will complete, the process of informing and explaining; it will not be first a document of request and redress, though it will be offered without equivocation and apology. The Report will serve the purpose of mediation between and among the people of this province and our fellow-Canadians. Ultimately, the Report will be a sharing of truth about ourselves and this place, and, as we have been so often reminded, the truth will set all of us – those who speak and those who listen - free.

The root meaning of the word "redeem" is "to buy back, to bargain again for." The work of the Royal Commission is about the redemption of our place and our spirit. Perhaps, finally, after two centuries of being Newfoundlanders & Labradorians and over a half-century as Canadians we have come to the time where we ourselves, once again, take charge of reclaiming our spirit, our self-reliance and our pride.

> *It is only a matter of a few more paltry weeks and we shall see the steam rising from the ponds and from the damp ground behind the plow; we shall see the grandmother sitting out by the doorstep for a few minutes watching the cat; we shall see the small boats a'bustle, piled high with lobster pots in the bow, and the days melting further and further into the night.*
>
> *Winter is over now.*
>
> *Praise God and all honour to our forefathers through generations who did never forsake this dear and fine country.*
>
> *(Spina Sanctus, Ray Guy)*

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Royal Commission on Renewing and Strengthening Our Place in Canada

Provincial Opinion Study

— Ryan Research and Communications

May 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

1.0 Executive Summary 347
- 1.1 Consultant's Overview 347
- 1.2 Research Highlights 348

2.0 Key Findings By Area of Investigation 353
- 2.1 Consider Yourself A Newfoundlander Or Labradorian Or A Canadian First 353
- 2.2 Value Most About Being Part Of Canada (Aided) 355
- 2.3 Most Significant Contribution Canada Has Made To Newfoundland And Labrador 357
- 2.4 Most Significant Contribution Newfoundland And Labrador Has Made To Canada 359
- 2.5 Dependency of Newfoundland And Labrador On The Federal Government 362
- 2.6 Areas On Which Some People Say This Province Depends On The Federal Government 363
  - Transfer Payments to Our Provincial Government 363
  - Transfer Payments to People (Like EI) 365
  - Transfer Payments to Businesses (Such as loans from ACOA) 366
- 2.7 Overall Satisfaction With Newfoundland And Labrador's Place In Canada 368
- 2.8 Reasons for Satisfaction or Dissatisfaction With This Province's Place In Canada 370
- 2.9 Value Most About Being A Newfoundlander Or Labradorian Or Being Part Of This Province 373
- 2.10 This Province's Greatest Strengths 376
- 2.11 One Strength, Opportunity, Or Advantage This Province Should Focus on To Achieve Greater Prosperity 378
- 2.12 This Province's Greatest Weaknesses 379
- 2.13 One Weakness Or Obstacle Need To Address To Achieve Greater Prosperity And Self-Reliance 382
- 2.14 Perception of Whether Other Canadians Have Stereotypes About Newfoundlanders And Labradorians 384
- 2.15 Most Common Stereotypes About Newfoundlanders And Labradorians 385
- 2.16 Extent Feel That Newfoundland And Labrador Is Treated With Respect By The Federal Government 388
- 2.17 Agree Or Disagree That Newfoundland And Labrador Is Often Ignored By The Federal Government 390
- 2.18 Perception Of The Fairness Of The Distribution of Money By The Federal Government To The Provinces And Territories 392
- 2.19 Perception of Whether Confederation Has Been A Good Thing For This Province 393

2.20 Should Newfoundland And Labrador Leave Canada And Become An Independent Country 396
2.21 Think That The Federal Government Treats This Province As Part Of The Atlantic Region 397
2.22 Extent Feel Being Treated As Part Of The Atlantic Region Is In The Best Interest Of This Province 399
2.23 What Approach Should The Province Take In Dealing With The Federal Government In The Future 400
2.24 Leave The Upper Churchill Deal In The Past And Move On Or Province Continue To Seek Fair Share 402
2.25 Senate Be More Effective If Each Province And Territory Were Represented Equally 403
2.26 Perception of Whether The Federal Government Is Taking Steps To Rebuild Our Fishery 405
2.27 Who Is Most Responsible For Newfoundland And Labrador Achieving Prosperity In The Future 407
2.28 Extent Feel That The Aboriginal Peoples Within This Province Are Treated With Dignity And Respect 409
2.29 Extent Feel That Women Have Equal Status With Men Within This Province 411
2.30 Extent Feel That Labrador Is Treated Fairly By The Provincial Government 412
2.31 Support Governments Taking A Harder Line And Making Tough Decisions 414
2.32 People in Rural Communities Move Elsewhere To Find Work Or Should Governments Provide Assistance So That They Can Stay In Their Communities 416
2.33 Born In Newfoundland And Labrador 418

3.0 Research Objectives and Methodology 420
3.1 Overall Objectives 420
3.2 Research Methodology 420

1.0 Executive Summary

This research was commissioned by the Royal Commission on Renewing and Strengthening our Place in Canada in April 2003 in order to assess public opinion in relation to certain views and opinions expressed to the Royal Commission during public consultations and other information gathering processes.

This research primarily investigated Newfoundlanders and Labradorians' satisfaction with this province's place in Canada as well as its relationship with the Federal Government. It also elicited input as to the strengths and weaknesses of this province that should be focussed on or addressed in order to achieve prosperity and self-reliance in the future.

A quota of 1000 interviews was set from a random sample of residents of the province 18 years of age or older. Quotas of 200 were set for each of the five key areas outlined below so that any variations in opinion on a regional basis can be identified:

1) West/Northern Peninsula/Port Aux Basques (referred to as the 'Western region' throughout the report)
2) Avalon Peninsula (excluding St. John's CMA)
3) Labrador
4) Central/South/Burin/East (referred to as the 'Central region' throughout the report)
5) St. John's CMA

A total of 1001 interviews were completed providing a statistical margin of error ± 3.10 overall and ± 6.93% at the 95% level of confidence (19 times out of 20) for each of the five areas. The overall results were weighted to reflect the actual populations of the five regions.

A pre-test was conducted on Wednesday April 9th and interviewing was conducted from April 10th to 24th 2003.

The following is a summary of the highlights of this research including the Consultant's Overview. Section 2.0 follows with a summary of key findings by area of investigation and regional analysis. Section 3.0 outlines the research methodology in more detail.

1.1 Consultant's Overview

- Overall, it appears that Newfoundlanders and Labradorians made a distinction between 'Canada' and the 'Federal Government'. More positive associations were attributed to Canada and more negative associations to the Federal Government. Consequently, more were satisfied with being part of Canada in general than they were with this province's relationship with the Federal Government. People of this province value Canada's contribution of universal health care coverage and other social assistance programs and they value being part of a democratic society. Furthermore, few *disagreed* that Confederation has been 'a good thing' for this province and very few felt that this province should leave Canada.

- Nevertheless, one in three Newfoundlanders and Labradorians indicated a level of dissatisfaction with this province's place in Canada stemming mainly from how they perceive the Federal Government treats this province. Very few respondents perceived that Newfoundland and Labrador is treated with much respect by the Federal Government and most feel that it is often ignored. They felt that this province receives less than its fair share of the money that the Federal Government distributes to the provinces and territories. Many felt that the Federal Government is not taking steps to rebuild the province's fishery. Furthermore, the Federal Government's equalization formula was also a cause for concern for some.
- Newfoundlanders and Labradorians felt that this province's most significant contribution to Canada is its natural resources. Although they most value this province's culture/music/arts as well its safeness, quality of life and sense of community/friendliness of the people, they perceived this province's natural resources to be its biggest strength. Consequently, many feel that the province should focus on its natural resources to achieve greater prosperity and self-reliance. Many perceived this province's greatest weakness to be its lack of control over its natural resources. They feel the province needs to focus on gaining control over its natural resources to achieve greater prosperity and self-reliance.
- The majority acknowledged that this province is dependent on the Federal Government particularly for transfer payments to the provincial government and to the people for things such as employment insurance. Nearly six in ten Newfoundlanders and Labradorians felt that the people of this province should be the most responsible for Newfoundland and Labrador achieving prosperity in the future…over the Provincial or Federal Government. Respondents were also asked to what extent they would support governments taking a harder line and making tough decisions that are for the greater good of the whole province even if it means some sacrifices for them and their community and almost half (49%) of all respondents indicated that they 'strongly support' this idea.

1.2 Research Highlights

- **Consider Yourself A Newfoundlander Or Labradorian Or A Canadian First.** Approximately seven in ten (72%) residents considered themselves to be a 'Newfoundlander or Labradorian' first while nearly one-quarter (24%) considered themselves to be a Canadian first.
- **Value Most About Being Part Of Canada (Aided).** When asked to choose from a list of five options, six in ten (60%) Newfoundlanders and Labradorians chose 'universal health care coverage' as what they value the most about being part of Canada. However, 18% valued 'democratic government/constitutional rights' above all of the other choices. Another 8% said 'equalization program' while 7% valued 'employment insurance programs' the most and only 3% said 'a strong armed forces'.
- **Most Significant Contribution Canada Has Made To Newfoundland And Labrador.** On an unaided basis, overall one in three (33%) said 'don't know' and 12% said 'nothing'.

Nevertheless, overall 30% said 'health care', 18% mentioned 'social assistance', 11% said 'government spending/equalization', and 9% mentioned 'Canada Pension Plan'.

- **Most Significant Contribution Newfoundland And Labrador Has Made To Canada.** 'Natural resources in general' was mentioned by over half (53%) of the respondents overall as the most significant contribution Newfoundland and Labrador has made to Canada followed by 'the fishery' (18%), 'people in general/workforce' (17%), 'offshore oil' (14%), 'Churchill Falls' (9%), 'forestry' (9%), 'Voisey's Bay' (7%), and 'our culture/music/arts' (7%).
- **Dependency of Newfoundland And Labrador On The Federal Government.** Over half (52%) of the respondents perceived that Newfoundland and Labrador is 'very dependent' on the Federal Government while 42% felt this province is 'somewhat dependent'. Only 4% felt that this province was 'not very' or 'not at all' dependent on the Federal Government.
- **Areas On Which Some People Say This Province Depends On The Federal Government.** Just over half (53%) of all respondents perceived that this province is 'very dependent' on transfer payments to our provincial government and another 38% felt that we are 'somewhat dependent' on these payments.

  Likewise, 63% of all respondents perceived that this province is 'very dependent' on transfer payments to people for things such as Employment Insurance while 29% felt we are 'somewhat dependent' on these payments.

  Fewer respondents (26%) perceived that this province is 'very dependent' on transfer payments to businesses for things such as loans from ACOA while another 48% said we are 'somewhat dependent' on these payments.
- **Overall Satisfaction With Newfoundland And Labrador's Place In Canada.** Eighteen percent (18%) of respondents indicated being 'very satisfied' with Newfoundland and Labrador's place in Canada, however, another 46% said they were 'somewhat satisfied'. Nevertheless, 32% expressed a level of dissatisfaction including 12% who said they were 'very dissatisfied'.
- **Reasons for Being Very Satisfied With This Province's Place In Canada.** Of those who were 'very satisfied' (18%) with this province's place in Canada, the main reasons mentioned overall were: 'treated fairly' (34%), 'access to health care' (26%), 'part of a democratic society' (19%), 'social assistance programs' (21%), 'CPP' (11%), and 'government spending' (4%).
- **Reasons for Dissatisfaction With This Province's Place In Canada.** Many of the reasons mentioned overall for not being satisfied (32%) with this province's place in Canada related to how this province is treated by the Federal Government: 'not treated with respect/fairly by the Federal Government' (51%), 'equalization formula' (24%), 'Federal Government not really concerned/ignore us' (15%), 'have no/little say/influence with Federal Government' (14%). Other reasons included: 'no control over natural resources' (27%), 'not treated with respect/fairly by other Canadians' (26%) 'mismanagement of the fishery' (6%), and 'not enough jobs/outmigration for work' (3%).
- **Value Most About Being A Newfoundlander Or Labradorian Or Being Part Of This Province.** On a first-mention, unaided basis one-quarter (25%) of all respondents said 'culture/music/arts' followed by 'safe' (20%), 'sense of community/friendliness of the

people' (14%), 'quality of life/good place to raise a family' (10%), 'freedom/democracy' (12%), and 'clean/not crowded' (7%).

Overall, combining all mentions, 34% said 'culture/music/arts' followed by 'safe' (31%), 'quality of life/good place to raise a family' (31%), 'sense of community/friendliness of the people' (28%), 'clean/not crowded' (18%), and 'freedom/democracy' (13%).

- **This Province's Greatest Strengths.** On a first mention, unaided basis just over one-third (36%) of respondents said 'sense of community/friendliness of the people'. Another three in ten (29%) mentioned this province's 'natural resources' followed more distantly by 'culture/music/arts' (5%), 'safe' (5%), and 'available/educated workforce' (5%).

  Overall, combining all mentions, 60% said 'natural resources' as this province's greatest strengths followed by 'sense of community/ friendliness of the people' (41%), 'culture/ music/arts' (15%) and 'available/educated workforce' (10%).
- **One Strength, Opportunity, Or Advantage This Province Should Focus on To Achieve Greater Prosperity.** Although many Newfoundlanders and Labradorians value our culture and people and see these as strengths of our province, many (26%) felt that this province should focus on its 'natural resources' to achieve greater prosperity and self-reliance. Fewer mentioned 'available/educated workforce' (13%), 'oil and gas reserves' (10%), 'scenery/coastline/tourism' (9%), 'fishery' (5%), 'good education system (4%), 'Voisey's Bay (2%), and 'Churchill Falls' (2%).
- **This Province's Greatest Weaknesses.** On a first mention, unaided basis approximately one-third (32%) of respondents said 'not enough jobs' and 18% said 'no control over natural resources' followed much further behind by 'too dependent on government' (9%), 'provincial government/leadership/politicians' (8%), 'people/not stand up for themselves/ lack confidence' (7%), and 'outmigration' (5%).

  Overall, combining all mentions, approximately one-third (32%) of respondents said 'not enough jobs' and 27% said 'no control over natural resources' as this province's greatest weaknesses followed by 'outmigration' (17%), 'too dependent on government' (12%), 'provincial government/ leadership/ politicians' (10%), and 'people/not stand up for themselves/lack confidence' (10%).
- **One Weakness Or Obstacle Need To Address To Achieve Greater Prosperity And Self-Reliance.** Although more respondents mentioned 'not enough jobs' as a weakness of this province, more felt that the province needs to focus on gaining control over our natural resources (26%) than on gaining more jobs (19%) in order to achieve greater prosperity and self-reliance. Fewer said 'provincial government/leadership/politicians' (7%), 'outmigration' (6%), 'too dependent on government' (5%), and 'people/not stand up for themselves/lack confidence' (5%).
- **Perception of Whether Other Canadians Have Stereotypes About Newfoundlanders And Labradorians.** Almost nine in ten (88%) respondents perceived that other Canadians have stereotypes about Newfoundlanders and Labradorians.
- **Most Common Stereotypes About Newfoundlanders And Labradorians.** Overall, almost half (46%) of all respondents mentioned 'lazy/don't work/don't want to work' while nearly as many said 'stupid' (45%) as common stereotype sof Newfoundlanders and Labradorians by other Canadians. Another 24% also mentioned 'not educated' as a

common stereotype and others mentioned 'fish/live in igloos' (9%), 'ignorant' (8%), and 'friendly' (7%).

- **Extent Feel That Newfoundland And Labrador Is Treated With Respect By The Federal Government.** Very few respondents perceived that Newfoundland and Labrador is treated with respect by the Federal Government. Only 8% of respondents said this province gets 'a lot' of respect while 47% said 'a little'. Over four in ten (42%) were more negative and said 'not very' (29%) or 'not at all' (13%) in terms of the extent of respect this province receives from the Federal Government.
- **Agree Or Disagree That Newfoundland And Labrador Is Often Ignored By The Federal Government.** The majority of respondents (84%) felt that the Federal Government ignores Newfoundland and Labrador including almost half (47%) who 'strongly agreed' that Newfoundland and Labrador is often ignored by the Federal Government and 37% who 'somewhat agreed' with this statement. Only 13 % of all respondents disagreed with this statement.
- **Perception Of The Fairness Of The Distribution of Money By The Federal Government To The Provinces And Territories.** Seven in ten (71%) respondents felt that this province receives 'less than its fair share' of the money that the Federal Government distributes to the provinces and territories. Another 17% felt that Newfoundland and Labrador receives 'about the right amount' and 3% even believed that this province receives 'more than it's fair share'.
- **Perception of Whether Confederation Has Been A Good Thing For This Province.** Overall, almost three-quarters (74%) agreed that Confederation has been a good thing for Newfoundland and Labrador including one in three (35.5%) respondents who 'strongly agreed' that Confederation has been a good thing for Newfoundland and Labrador and 38.5% who 'somewhat agreed' that Confederation has been a good thing. Nevertheless, almost two in ten (18%) Newfoundlanders and Labradorians disagreed that Confederation has been a good thing for the province including 8% who 'strongly disagreed'. Another 3% were more neutral and volunteered that they 'neither agreed nor disagreed' with the statement and 5% could not articulate any opinion and said 'don't know'.
- **Should Newfoundland And Labrador Leave Canada And Become An Independent Country.** Eight in ten (81%) Newfoundlanders and Labradorians felt that this province should not leave Canada and become a separate country. Nevertheless, 12% felt this province should separate.
- **Think That The Federal Government Treats This Province As Part Of The Atlantic Region.** Respondents were divided as to whether they feel that the Federal Government treats this province as part of the Atlantic region as 44% said 'yes' and 43% said 'no'. Another said 'it depends' while 5% said 'don't know'.
- **Extent Feel Being Treated As Part Of The Atlantic Region Is In The Best Interest Of This Province.** Of the 44% who felt that the Federal Government treats this province as part of the Atlantic region, the majority felt that this is in the best interest of the province as evidenced by the 39% who said 'a lot' and 38% who said 'a little' with regards to the extent to which this is in the best interest of the province. Nevertheless, 20% of this segment did not feel that this was in the best interest of the province.

- **What Approach Should The Province Take In Dealing With The Federal Government In The Future.** Significantly more respondents felt that this province should take 'a firm but reasoned' approach (72%) over 'a confrontational and aggressive' approach (25%) when dealing with the Federal Government in the future.
- **Leave The Upper Churchill Deal In The Past And Move On Or Province Continue To Seek Fair Share.** When presented with these two alternatives, nearly three in four (74%) felt that the province should continue to seek its fair share of Churchill Falls by whatever means it can. Nevertheless, 21% felt that it is time to move on. Another 3% said 'don't know' and 2% said 'it depends'.
- **Senate Be More Effective If Each Province And Territory Were Represented Equally.** Over four in ten (44%) 'strongly supported' the idea of having each province and territory represented equally in the Senate so that larger and smaller provinces would have the same number of representatives. Furthermore, 28% 'somewhat supported' this proposal. Nevertheless, 19% opposed this proposal including 7% who 'strongly opposed' it.
- **Perception of Whether The Federal Government Is Taking Steps To Rebuild Our Fishery.** One in three (32%) Newfoundlanders and Labradorians felt that the Federal Government is not taking any steps at all to rebuild the province's fishery. Another 35% said 'not very' in terms of the extent of the steps the Federal Government is taking. Nevertheless, 4% said 'a lot' and 27% said 'a little' in terms of the extent of the steps the Federal Government is taking to rebuild the fishery.
- **Who Is Most Responsible For Newfoundland And Labrador Achieving Prosperity In The Future.** Respondents were asked who they believe is most responsible for Newfoundland and Labrador achieving prosperity in the future: The Federal Government, The Provincial Government, or The people of Newfoundland and Labrador. Almost six in ten (58%) said 'the people of Newfoundland and Labrador'. Nevertheless, 15% said 'the Provincial Government' while another 7% said 'both the Provincial Government and the people of Newfoundland and Labrador' and 6% felt that the Federal Government is most responsible for the province achieving prosperity in the future.
- **Extent Feel That The Aboriginal Peoples Within This Province Are Treated With Dignity And Respect.** Almost four in ten (39%) felt that aboriginal peoples are treated with dignity and respect within this province. However, more felt that aboriginal peoples in this province are not completely treated with dignity and respect as evidenced by the 29% who said 'a little', the 15% who said 'not very' and the 8% who said 'not at all' in terms of the extent of dignity and respect given to aboriginal peoples.
- **Extent Feel That Women Have Equal Status With Men Within This Province.** Approximately half (47%) of all respondents felt that women have equal status with men within this province. However, more felt that women do not fully have equal status with men within this province as evidenced by the 32% who said 'a little', the 12% who said 'not very' and the 6% who said 'not at all' in terms of the extent of equal status between men and women in the province.
- **Extent Feel That Labrador Is Treated Fairly By The Provincial Government.** Just over one-quarter (27%) felt that Labrador is treated fairly by the Provincial Government. However, more felt that Labrador is not completely treated fairly as evidenced by the 36%

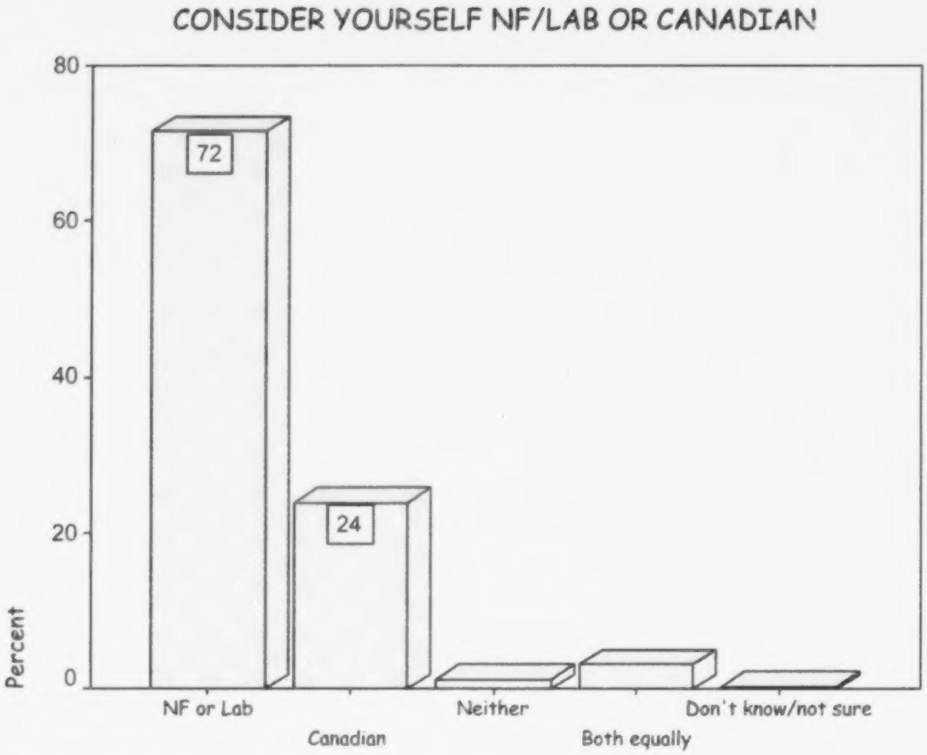
who said 'a little', the 15% who said 'not very' and the 9% who said 'not at all' in terms of the extent of fairness to Labrador by the Provincial Government.

- **Support Governments Taking A Harder Line And Making Tough Decisions.** Respondents were asked to what extent they would support governments taking a harder line and making tough decisions that are for the greater good of the whole province even if it means some sacrifices for them and their community. Almost half (49%) of all respondents indicated that they 'strongly support' this idea. An additional 34% said they 'somewhat support' this idea. However, 10% opposed the idea including 5% who were 'strongly opposed' to it.
- **People in Rural Communities Move Elsewhere To Find Work Or Should Governments Provide Assistance So That They Can Stay In Their Communities.** Respondents were divided on their opinion on this issue. Approximately four in ten (38%) felt that people in these communities should move elsewhere in the province or out of the province where they can find work. However, four in ten (41%) also believed that governments should provide assistance so that they can stay in their communities. Another 4% said 'both', 13% said 'it depends', while another 2% said 'neither'.

2.0 Key Findings By Area of Investigation

2.1 Consider Yourself A Newfoundlander Or Labradorian Or A Canadian First

Approximately seven in ten (72%) residents considered themselves to be a 'Newfoundlander or Labradorian' first while nearly one-quarter (24%) considered themselves to be a Canadian first.



Q#1 First of all, do you consider yourself a Newfoundlander or Labradorian or a Canadian first?

Those who were more likely to consider themselves a Canadian first included a higher than average (24%) proportion of the following segments:

- Those who 'strongly' agreed that Confederation has been a good thing for NL (32%)
- Those who were not born in NL (56%)
- Those employed year-round full-time for pay (30%)
- College/university graduates (32%)
- Those with household incomes of $40K to just under $70K (29%)
- Those with household incomes of $70K or more (33%)

CONSIDER YOURSELF A NL OR CANADIAN FIRST

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Newfoundlander or Labradorian	70.4%	70.3%	71.0%	82.4%	68.5%	71.6%
Canadian	25.9%	25.1%	23.9%	13.2%	27.0%	23.8%
Neither	.0%	1.1%	1.3%	.7%	1.5%	1.2%
Both equally	3.7%	2.9%	3.7%	2.9%	2.4%	3.0%
Don't know/not sure		.6%		.7%	.6%	.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.2 Value Most About Being Part Of Canada (Aided)

Respondents were asked to choose one thing they value the most about being part of Canada from a list of five choices including:

- Universal health care coverage
- Employment insurance programs
- Democratic government/constitutional rights
- Equalization program that provides a sharing of wealth to all provinces
- A strong armed forces

When asked to choose from the list, six in ten (60%) Newfoundlanders and Labradorians chose 'universal health care coverage' as what they value the most about being part of Canada. However, 18% valued 'democratic government/constitutional rights' above all of the other choices. Another 8% said 'equalization program' while 7% valued 'employment insurance programs' the most and only 3% said 'a strong armed forces'.

Those who said 'democratic government/constitutional rights' included a higher than average (18%) proportion of the following segments:

- Those living in St. John's CMA (25%)
- Students (24%)
- Those employed year-round full-time for pay (23%)
- Those with technical/vocation school education (24%)
- College/university graduates (23%)
- Those aged 35 to 49 (23%)
- Those in white-collar occupations (25%)

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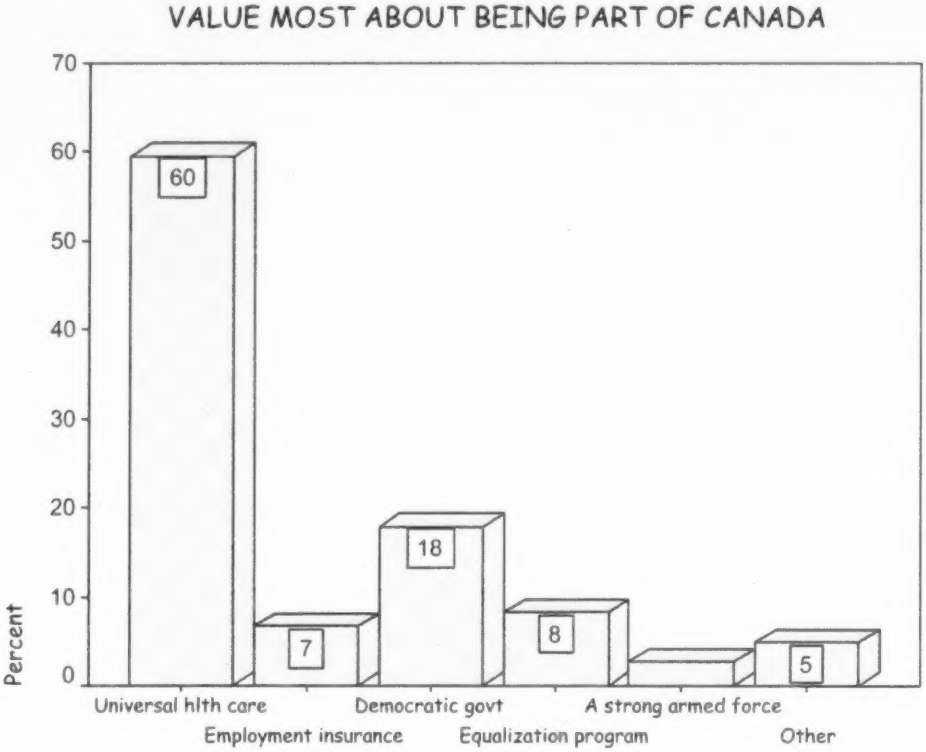
[1] Read as "32% of those who strongly agreed that Confederation has been a good thing for this province consider themselves to be Newfoundlanders or Labradorians first".

- Those with household incomes of $70K or more (32%)


VALUE MOST ABOUT BEING PART OF CANADA

Q#2 Now, I'm going to read you a list of some things people say they value about being part of Canada. I'd like you to tell me which one you value the most about this province being part of Canada?

Regionally, 'employment insurance programs' were valued the most by those in the Western (10%) and Central (10%) regions than by those in St. John's (2%). 'Democratic government/constitutional rights' was selected by more of those in St. John's (25%) and by fewer in the Central region (13%).

VALUE ABOUT BEING PART OF CANADA

% within REGION

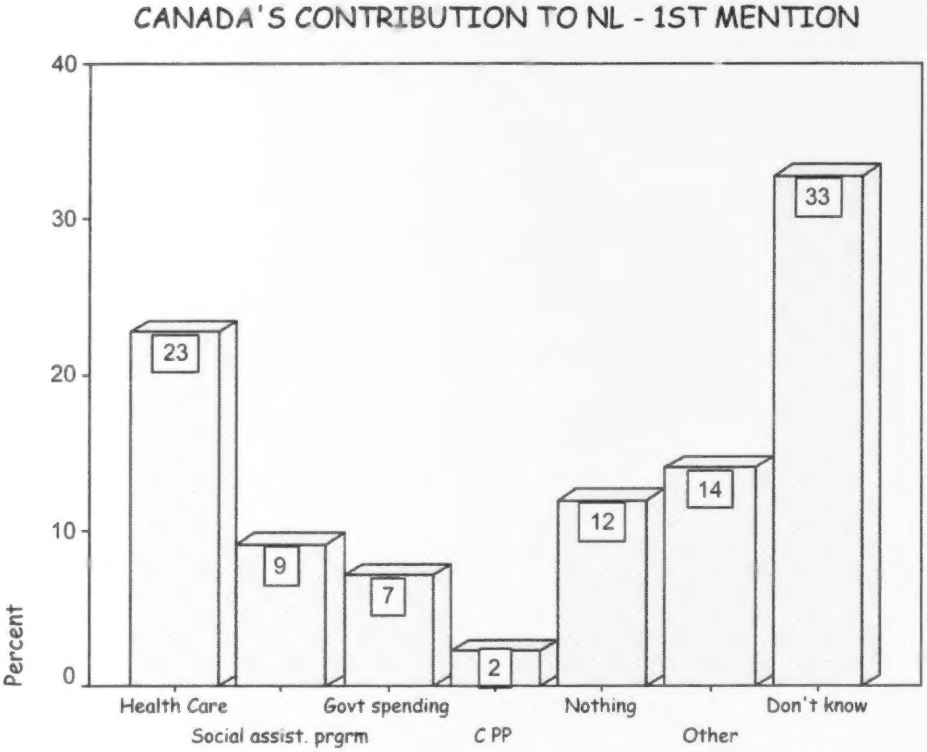
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Universal health care coverage	63.0%	60.9%	58.4%	58.8%	59.9%	59.7%
Employment insurance programs	5.6%	9.8%	9.5%	7.4%	2.4%	6.6%
Democratic government/constitutional rights	18.5%	16.1%	12.8%	14.7%	24.6%	18.0%
Equalization program that provides a sharing of wealth	9.3%	6.3%	9.5%	8.1%	7.7%	8.1%
A strong armed forces	1.9%	2.3%	4.4%	3.7%	.9%	2.6%
Other	1.9%	4.6%	5.4%	7.4%	4.5%	5.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.3 Most Significant Contribution Canada Has Made To Newfoundland And Labrador

Respondents were given the opportunity to indicate on an unaided basis what they feel is the most significant contribution Canada has made to Newfoundland and Labrador. Looking at the first response respondents gave, one in three (33%) said 'don't know' and 12% said 'nothing'. Nevertheless, 23% said 'health care', 9% mentioned 'social assistance' and 7% said 'government spending/equalization'.

Those who said 'nothing' included a higher than average (12%) proportion of the following segments:

- Retirees (21%)
- Those with less than high school education (18%)
- Those aged 65 or more (21%)
- Those with household incomes of $20K or less (17%)
- Those who were 'very dissatisfied' with this province's place in Canada (29%)
- Those who 'strongly' disagreed that Confederation has been a good thing for NL (37%)
- Those who 'somewhat' disagreed that Confederation has been a good thing for NL (23%)
- Those who felt that NL should leave Canada and become an independent country (32%)



Q#3a In your opinion, what is the most significant contribution Canada has made to Newfoundland and Labrador?

The following table shows that regionally 'health care' was mentioned first as the most significant contribution Canada has made to Newfoundland and Labrador by more in the Central region (33%) and by fewer in Labrador (15%). 'Social assistance programs' were mentioned first by more in the Central (11%) and Avalon (11%) regions than in St. John's (6%). 'Government spending/Equalization programs' were mentioned by significantly more in Labrador (17%). Furthermore, residents of St. John's (42%), the Avalon (35%) and the Western regions (35%) were more likely to say 'don't know' in comparison to those in Labrador (29%) and the Central region (22%).

CANADA'S CONTRIBUTION TO NL - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Health Care	14.8%	18.5%	33.2%	16.9%	19.1%	22.7%
Social assistance programs	9.3%	9.2%	11.4%	11.0%	6.3%	9.1%
Government spending/equalization	16.7%	7.5%	7.7%	2.9%	6.9%	7.2%
Canada Pension Plan	1.9%	2.3%	2.7%	3.7%	.9%	2.1%
Nothing	11.1%	10.4%	11.1%	14.7%	12.8%	12.0%
Other	18.5%	17.3%	12.4%	15.4%	12.2%	14.0%
Don't know	27.8%	34.7%	21.5%	35.3%	41.8%	32.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions, the following table shows that 'health care' was mentioned by three in ten (30%) respondents overall as the most significant contribution Canada has made to Newfoundland and Labrador followed by 'social assistance' (18%), 'government spending/ equalization' (11%), and 'Canada Pension Plan' (9%).

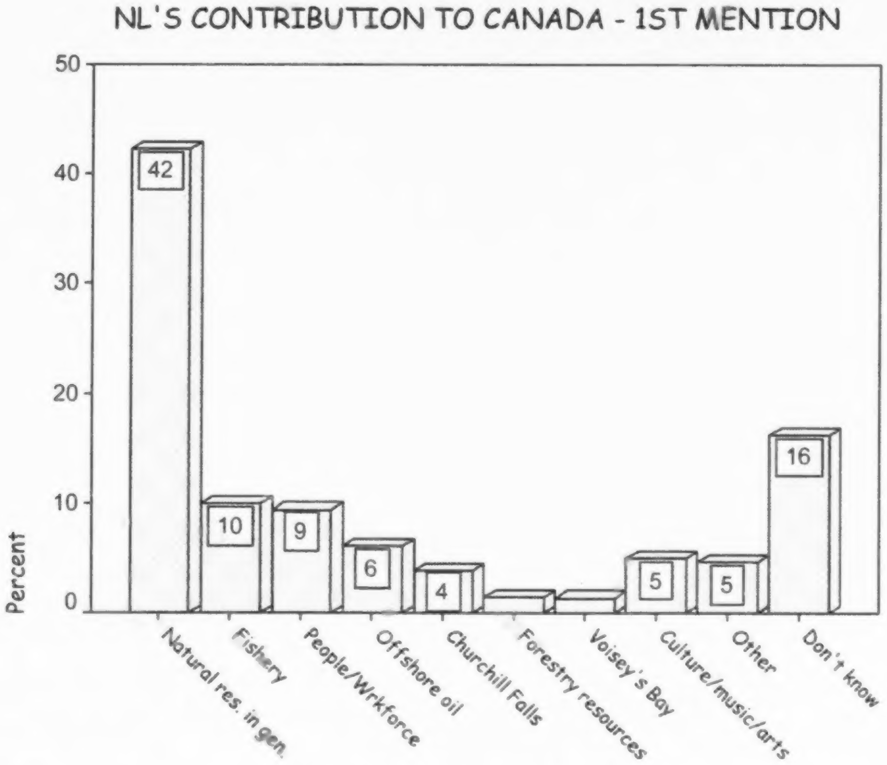
CANADA'S CONTRIBUTION TO NL - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Health Care	28.4%	23.0%	43.8%	19.8%	25.0%	29.7%
Social assistance programs	22.7%	13.5%	24.8%	17.7%	13.7%	18.0%
Government spending/equalization	24.2%	10.5%	8.6%	6.8%	11.8%	10.6%
Canada Pension Plan	4.1%	13.5%	14.8%	7.8%	2.5%	8.9%
Nothing	10.8%	10.4%	11.1%	14.7%	12.8%	12.0%
Other	34.00	22.5%	19.0%	20.8%	18.1%	20.4%
Don't know	27.8%	34.7%	21.5%	35.3%	41.8%	32.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.4 Most Significant Contribution Newfoundland And Labrador Has Made To Canada

Respondents were also given the opportunity to indicate on an unaided basis what they feel is the most significant contribution Newfoundland and Labrador has made to Canada. Looking at the first response respondents gave; over four in ten (42%) said 'natural resources in general'. Others mentioned specific resources including: the fishery (10%), 'offshore oil' (6%), 'Churchill Falls' (4%), 'forestry' (2%), and 'Voisey's Bay' (1%). Another 9% mentioned 'the people of this province/workforce' and 5% said 'our culture/music/arts'.



Q#3b In your opinion, what is the most significant contribution Newfoundland and Labrador has made to Canada?

The following table shows that regionally 'natural resources in general' was mentioned first as the most significant contribution Newfoundland and Labrador has made to Canada by more in St. John's (46%), the Central (46%) and Western (42%) regions and by fewer in Labrador (30%) and the Avalon region (30%). More respondents outside St. John's and Labrador mentioned 'the fishery'. Respondents in Labrador were also more likely than those elsewhere in the province to mention 'Churchill Falls' and 'Voisey's Bay'.

NL'S CONTRIBUTION TO CANADA - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Natural resources in general	29.6%	42.3%	46.1%	30.4%	45.8%	42.3%
Fishery	9.3%	12.0%	11.4%	13.3%	6.3%	9.9%
People in general/Workforce	9.3%	8.0%	8.4%	9.6%	10.7%	9.3%
Offshore oil	5.6%	4.0%	5.4%	8.1%	6.8%	6.0%
Churchill Falls	7.4%	2.3%	3.4%	5.2%	3.9%	3.8%
Forestry resources	1.9%	3.4%	2.4%	.7%		1.5%
Voisey's Bay	5.6%		1.0%	1.5%	1.5%	1.3%
Culture/music/arts	7.4%	5.7%	3.4%	2.2%	6.8%	5.0%
Other	7.4%	5.7%	5.7%	3.0%	3.0%	4.5%
Don't know	16.7%	16.6%	12.8%	25.9%	15.2%	16.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions, the following table shows that 'natural resources in general' was mentioned by over half (53%) of the respondents overall as the most significant contribution Newfoundland and Labrador has made to Canada followed by 'the fishery' (18%), 'people in general/workforce' (17%), 'offshore oil' (14%), 'Churchill Falls' (9%), 'forestry' (9%), 'Voisey's Bay' (7%), and 'our culture/music/arts' (7%).

NL'S CONTRIBUTION TO CANADA - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Natural resources in general	43.8%	51.7%	60.5%	38.5%	54.9%	53.2%
Fishery	29.9%	23.4%	19.0%	20.3%	12.7%	18.4%
People in general/Workforce	18.0%	15.9%	14.8%	14.6%	19.1%	16.6%
Offshore oil	20.1%	13.4%	8.6%	20.8%	14.2%	13.6%
Churchill Falls	26.3%	9.5%	9.0%	10.4%	7.4%	9.7%
Forestry resources	10.3%	8.5%	19.0%	3.6%	2.00	8.9%
Voisey's Bay	27.3%	5.50	5.2%	10.4%	3.4%	6.6%
Culture/music/arts	10.3%	8.0%	4.8%	4.2%	8.8%	6.9%
Other	14.4%	6.0%	6.7%	5.7%	4.4%	6.1%
Don't know	16.7%	16.6%	12.8%	25.9%	15.2%	16.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

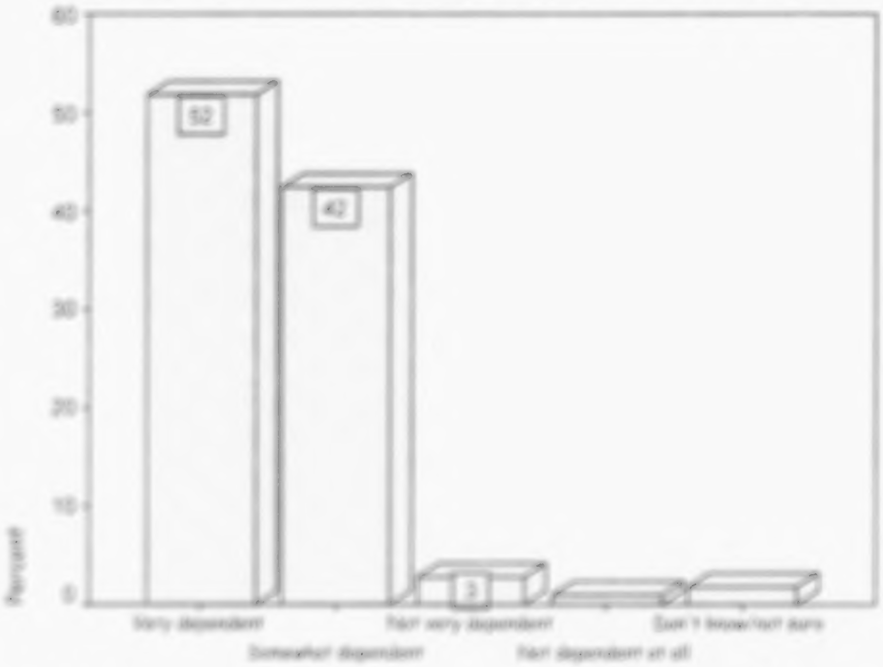
2.5 Dependency of Newfoundland And Labrador On The Federal Government

Approximately half (52%) of all respondents perceived that Newfoundland and Labrador is 'very dependent' on the Federal Government. Another 42% said 'somewhat dependent'. Only 4% felt that this province was 'not very' or 'not at all' dependent on the Federal Government.

Those who said 'very dependent' included a higher than average (52%) proportion of the following segments:

- Those with technical/vocational school education (59%)
- Those with some college/university education (57%)
- College/university graduates (57%)
- Those in white-collar occupations (59%)
- Those with household incomes of $70K or more (61%)
- Those who felt that people in rural areas should move to find work instead of governments providing assistance to help them stay in their communities (60%).

EXTENT TO WHICH NL IS DEPENDENT ON FED. GOVT.



Q84. All things considered, do you feel that Newfoundland and Labrador is 'very dependent', 'somewhat dependent', 'not very dependent' or 'not dependent at all' on the Federal Government?

The following table shows that regionally residents in St. John's (55%) and the Central (55%) regions were more likely to feel that this province is 'very dependent' on the Federal Government than those in Labrador (48%), West (48%) and the Avalon (43%).

EXTENT TO WHICH NL IS DEPENDENT ON FEDERAL GOVERNMENT

% within REGION

	REGION					
	Labrador	West/PAP/St. Anthony	Central/Eastern/Sth/Burin	Avalon	St. John's CMA	Total
Very dependent	48.1%	48.3%	54.7%	43.4%	54.7%	51.7%
Somewhat dependent	46.3%	46.0%	40.3%	47.1%	39.6%	42.3%
Not very dependent	3.7%	2.3%	2.0%	3.7%	3.6%	2.9%
Not dependent at all		1.7%	1.0%	2.9%		1.0%
Don't know/not sure	1.9%	1.7%	2.0%	2.9%	2.1%	2.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.6 Areas On Which Some People Say This Province Depends On The Federal Government

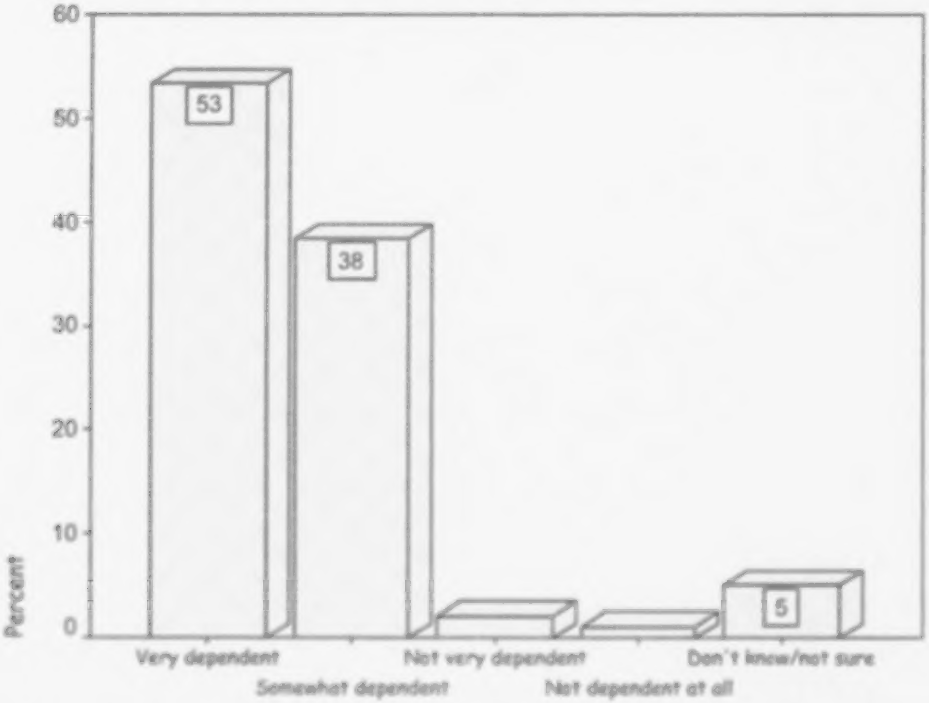
Transfer Payments to Our Provincial Government

Just over half (53%) of all respondents perceived that this province is 'very dependent' on transfer payments to our provincial government and another 39% felt that we are 'somewhat dependent' on these payments. Only 3% felt this province is not dependent on these payments and 5% said 'don't know'.

Those who said 'very dependent' included a higher than average (53%) proportion of the following segments:

- Those employed year-round full-time (61%)
- Those with technical/vocational school education (59%)
- College/university graduates (61%)
- Those aged 50 to 64 (62%)
- Those aged 65 or more (62%)
- Those in white-collar occupations (67%)
- Those with household incomes of $40K to $70K or more (58%)
- Those with household incomes of $70K or more (66%)
- Those who 'strongly support' governments taking a harder line and making tougher decisions (60%)
- Those who felt that people in rural areas should move to find work instead of governments providing assistance to help them stay in their communities (62%)

DEPENDENCE ON TRANSFER PAYMENTS TO PROV. GOVT.



Q#5 Here are some areas on which some people say this province depends on the Federal Government. I'd like to know to what extent you feel that this province is dependent on the Federal Government for each. The first one is 'Transfer payments to our provincial government, such as Equalization, to help pay for provincial services'. Do you feel this province is 'Very dependent', 'Somewhat dependent', 'Not very dependent', or 'Not dependent at all' on the Federal Government Canada for that?

DEPENDENCE ON TRANSFER PAYMENTS TO PROVINCIAL GOVERNMENT

% within REGION

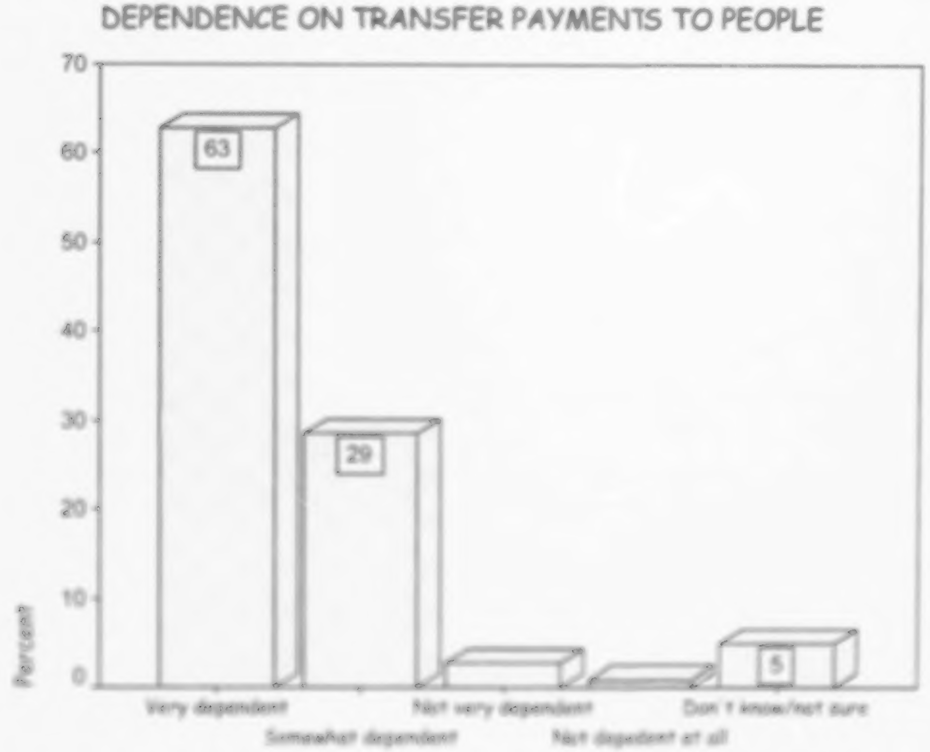
	REGION					
	Labrador	West PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Very dependent	44.4%	51.4%	50.8%	41.9%	62.8%	53.4%
Somewhat dependent	48.1%	38.9%	43.4%	44.1%	30.1%	38.5%
Not very dependent	1.9%	2.3%	2.0%	4.4%	.9%	2.0%
Not dependent at all	1.9%	1.7%	1.3%	1.5%		1.0%
Don't know/not sure	3.7%	5.7%	2.4%	8.1%	6.2%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Transfer Payments to People (Like EI)

Approximately two-thirds (63%) of all respondents perceived that this province is 'very dependent' on transfer payments to people and another 29% felt that we are 'somewhat dependent' on these payments. Only 4% felt that this province is not dependent on these payments to people and 5% said 'don't know'.

Those who said 'very dependent' included a higher than average (63%) proportion of the following segments:

- Those living in the Central region (70%)
- Those living in Labrador (69%)
- Retirees (70%)
- Those with technical/vocational school education (68%)
- Those aged 65 or more (71%)
- Those in white-collar occupations (72%)
- Those with household incomes of $70K or more (68%)
- Those who 'strongly oppose' governments taking a harder line and making tougher decisions (79%)



Q#5 Here are some areas on which some people say this province depends on the Federal Government. I'd like to know to what extent yo feel that this province is dependent on the Federal Government for each. The next one is 'Transfer payments *to people such as employment insurance'. Do you feel this province is 'Very dependent', 'Somewhat dependent', 'Not very dependent', or 'Not dependent at all' on the Federal Government Canada for that?*

DEPENDENCE ON TRANSFER PAYMENTS TO PEOPLE LIKE EI

% within REGION

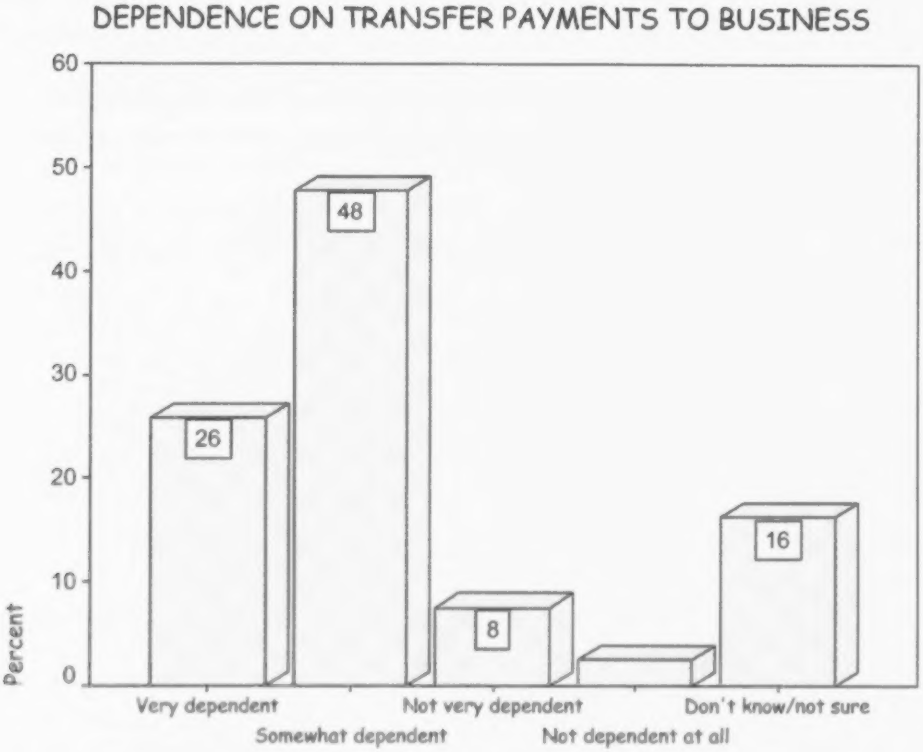
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Very dependent	68.5%	62.9%	70.0%	51.5%	60.2%	62.9%
Somewhat dependent	25.9%	29.7%	27.3%	35.1%	27.0%	28.6%
Not very dependent	1.9%	1.7%	1.3%	4.5%	3.9%	2.7%
Not dependent at all	1.9%	1.1%		.7%	1.5%	.9%
Don't know/not sure	1.9%	4.6%	1.3%	8.2%	7.4%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Transfer Payments to Businesses (Such as loans from ACOA)

Fewer respondents (26%) perceived that this province is 'very dependent' on transfer payments to businesses for things such as loans from ACOA while another 48% said we are 'somewhat dependent' on these payments. Another 10% did not feel this province is dependent on transfer payments to business while 16% said 'don't know'.

Those who said 'very dependent' included a higher than average (26%) proportion of the following segments:

- Those living in the Central region (31%)
- Retirees (70%)
- Those with less than high school education (31%)
- Those with technical/vocational school education (30%)
- Those in pink/grey-collar occupations (33%)
- Those with household incomes of $70K or more (68%)
- Those who 'strongly oppose' governments taking a harder line and making tougher decisions (38%)



Q#5 Here are some areas on which some people say this province depends on the Federal Government. I'd like to know to what extent you feel that this province is dependent on the Federal Government for each. The next one is 'Transfer payments to businesses such as loans from ACOA'. Do you feel this province is 'Very dependent', 'Somewhat dependent', 'Not very dependent', or 'Not dependent at all' on the Federal Government Canada for that?

DEPENDENCE ON TRANSFER PAYMENTS TO BUSINESSES

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Very dependent	21.8%	24.6%	31.3%	25.4%	22.6%	25.9%
Somewhat dependent	49.1%	47.4%	51.9%	44.0%	45.7%	47.8%
Not very dependent	10.9%	6.3%	4.4%	4.5%	11.9%	7.6%
Not dependent at all	1.8%	4.6%	2.4%	.7%	2.4%	2.5%
Don't know/not sure	16.4%	17.1%	10.1%	25.4%	17.5%	16.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.7 Overall Satisfaction With Newfoundland And Labrador's Place In Canada

Eighteen percent (18%) of respondents indicated being 'very satisfied' with Newfoundland and Labrador's place in Canada. Another 46% said they were 'somewhat satisfied'. Nevertheless, 32% expressed a level of dissatisfaction including 12% who said they were 'very dissatisfied'.

Those who were 'very satisfied' included a higher than average (18%) proportion of the following segments:

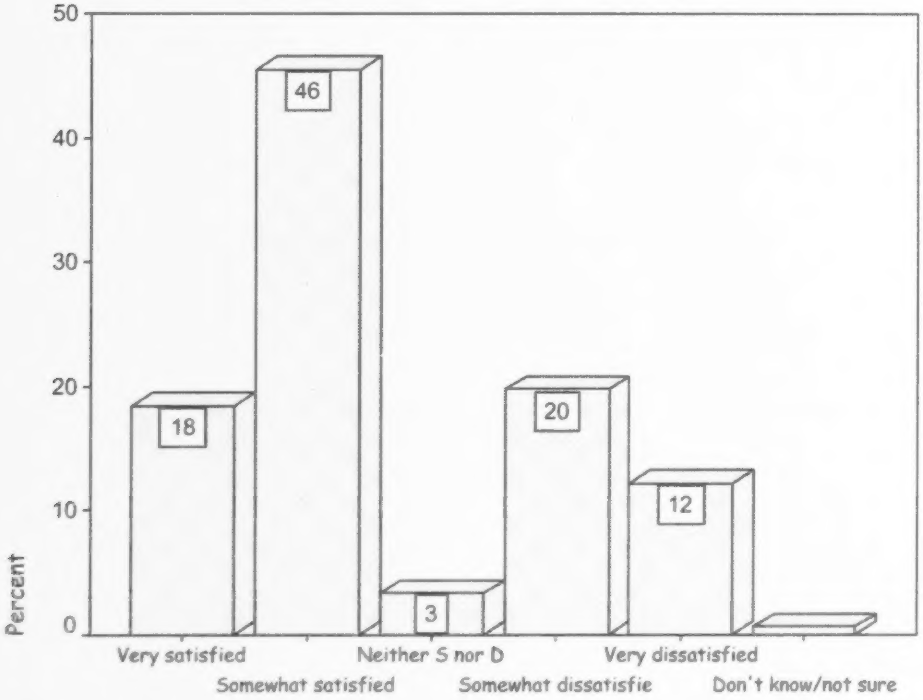
- Those in the Western region (24%)
- Those in the Central region (23%)
- Homemakers (34%)
- Students (26%)
- Those with less than high school education (37%)
- Those aged 18 to 24 (24%)
- Those aged 65 or more (27%)
- Those with household incomes of $20K or less (33%)
- Those who strongly opposed governments taking a harder line and making tough decisions (29%)
- Those who felt that governments should provide assistance to those n rural communities who cannot find enough work (25%)
- Those who felt that this province is treated with 'a lot' of respect by the Federal Government (43%)
- Those who 'strongly' (33%) or 'somewhat' (29%) disagreed that the Federal Government ignores this province
- Those who felt that this province receives more than its fair share of money distributed by the Federal Government (44%)
- Those who 'strongly' agreed that Confederation has been a good thing for NL (31%)

Those who were 'very' or 'somewhat' dissatisfied included a higher than average (32%) proportion of the following segments:

- Males (41%)
- Those with technical/vocational school education (40%)
- Those with household incomes of $40K to $70K (38%)
- Those who felt that this province is not treated with respect by the Federal Government (48%)
- Those who 'strongly' agreed that the Federal Government ignores this province (46%)
- Those who felt that this province receives less than its fair share of money distributed by the Federal Government (39%)

- Those who 'strongly' disagreed that Confederation has been a good thing for NL (81%)
- Those who 'somewhat' disagreed that Confederation has been a good thing for NL (51%)
- Those who felt that this province should leave Canada (59%)
- Those who felt that the Federal Government does not treat this province as part of the Atlantic region (46%)
- Those who strongly support equal representation in the Senate (39%)
- Those who don't feel the Federal Government is taking steps to rebuild the fishery (47%).

OVERALL SATISFACTION WITH NL'S PLACE IN CDA



Q#6 All things considered, how satisfied are you with Newfoundland and Labrador's place in Canada?

The following table shows that regionally higher satisfaction levels were evident in the Central (68%) and Western (70%) regions and by fewer in Labrador (60%) the Avalon region (62%) and St. John's (59%).

Conversely, dissatisfaction levels with this province's place in Canada were higher in St. John's (36%), Labrador (36%), and the Avalon region (32%) in comparison to the West (28%) and Central (29%) regions.

OVERALL SATISFACTION WITH NL'S PLACE IN CANADA

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Very satisfied	21.8%	23.6%	22.9%	18.4%	11.3%	18.4%
Somewhat satisfied	38.2%	46.0%	44.8%	43.4%	48.1%	45.5%
Neither S nor D	3.6%	1.7%	3.7%	5.1%	3.0%	3.3%
Somewhat dissatisfied	21.8%	13.8%	16.8%	16.2%	27.0%	19.9%
Very dissatisfied	14.5%	14.4%	11.8%	16.2%	9.2%	12.1%
Don't know/not sure		.6%		.7%	1.5%	.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.8 Reasons for Satisfaction or Dissatisfaction With This Province's Place In Canada

Respondents were given the opportunity to say why they were satisfied or dissatisfied with this province's place in Canada.

Selecting those who indicated being 'very satisfied' with this province's place in Canada (18%), the following table shows the main reason mentioned first was 'treated fairly' (28%) followed by 'access to health care' (14%), 'part of a democratic society' (13%), and 'social assistance programs (6%). Almost one-quarter (23%) of those who indicated being 'very satisfied' could not articulate a reason for their satisfaction with this province's place in Canada and said 'don't know'.

REASONS FOR BEING 'VERY' SATISFIED WITH NL'S PLACE IN CANADA - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Equalization formula		5.0%		3.7%		1.6%
Treated fairly	41.7%	27.5%	30.8%	22.2%	25.6%	28.4%
Access to health care	8.3%	7.5%	24.6%	11.1%	7.7%	14.2%
Part of democratic society	16.7%	7.5%	15.4%	3.7%	17.9%	12.6%
Social assistance programs/EI	8.3%	7.5%	6.2%	7.4%	5.1%	6.6%
CPP		5.0%				1.1%
Government spending		5.0%	1.5%	3.7%		2.2%
Don't know	8.3%	25.0%	12.3%	29.6%	38.5%	23.0%
Other	16.7%	2.5%	6.2%	14.8%	5.1%	7.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions of those who were 'very satisfied' with this province's place in Canada (18%), the following table shows the main reasons to be: 'treated fairly' (34%) followed by 'access to health care' (26%), 'part of a democratic society' (19%), 'social assistance programs' (21%), 'CPP' (11%), and 'government spending' (4%).

REASONS FOR BEING 'VERY SATISFIED' WITH NL'S PLACE IN CANADA - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Treated fairly	42.9%	34.8%	38.3%	25.0%	30.4%	34.3%
Access to health care	9.5%	21.7%	40.4%	16.7%	17.4%	26.2%
Part of democratic society	33.3%	15.2%	19.1%	11.1%	21.7%	18.6%
Social assistance programs/EI	11.9%	13.0%	31.9%	19.4%	13.0%	20.8%
CPP	7.10	13.0%	19.10	.0%	4.30	11.2%
Government spending	2.4%	8.7%	2.1%	2.8%	4.3%	4.1%
Don't know	7.1%	23.9%	12.8%	30.6%	39.1%	22.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Looking at those who indicated being 'dissatisfied' with this province's place in Canada (32%), the following table shows the main reason they mentioned first was 'not treated with respect/fairly by the Federal Government' (42%) followed much further by 'equalization formula' (14%), 'no control over natural resources' (13%), and 'not treated with respect/fairly by other Canadians' (9%).

REASONS FOR DISSATISFACTION WITH NL'S PLACE IN CANADA - 1ST MENTION (RECODED)

% within REGION

		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	Not treated with respect/fairly by Fed Govt	31.6%	56.3%	48.8%	35.6%	35.0%	41.7%
	Not treated with respect/fairly by other Cdns	10.5%	6.3%	7.1%	11.1%	10.6%	9.1%
	Fed Govt not really concerned/ignores us	5.3%		7.1%	2.2%	1.6%	3.1%
	Have no/little say/influence with Fed Govt	5.3%	4.2%	1.2%	4.4%	6.5%	4.4%
	Equalization formula	36.8%	10.4%	15.5%	6.7%	14.6%	14.4%
	Mismanagement of the fishery	.0%	2.1%	3.6%	6.7%	1.6%	2.8%
	No control over natural resources	5.3%	8.3%	9.5%	15.6%	16.3%	12.5%
	Not enough jobs/outmigration for work	.0%	4.2%	1.2%	2.2%		1.3%
	Don't know	.0%		1.2%	6.7%	1.6%	1.9%
	Other	5.3%	8.3%	4.8%	6.7%	10.6%	7.8%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions, the following table shows the main reasons for not being satisfied included: 'not treated with respect/fairly by the Federal Government' (51%) followed by 'no control over natural resources' (27%), 'not treated with respect/fairly by other Canadians' (26%), 'equalization formula' (24%), 'Federal Government not really concerned/ignore us' (15%), 'have no/little say/influence with Federal Government' (14%), 'mismanagement of the fishery' (6%), 'not enough jobs/outmigration for work' (3%).

REASONS FOR DISSATISFACTION WITH NL'S PLACE IN CANADA - ANY MENTION (RECODED)

% within REGION

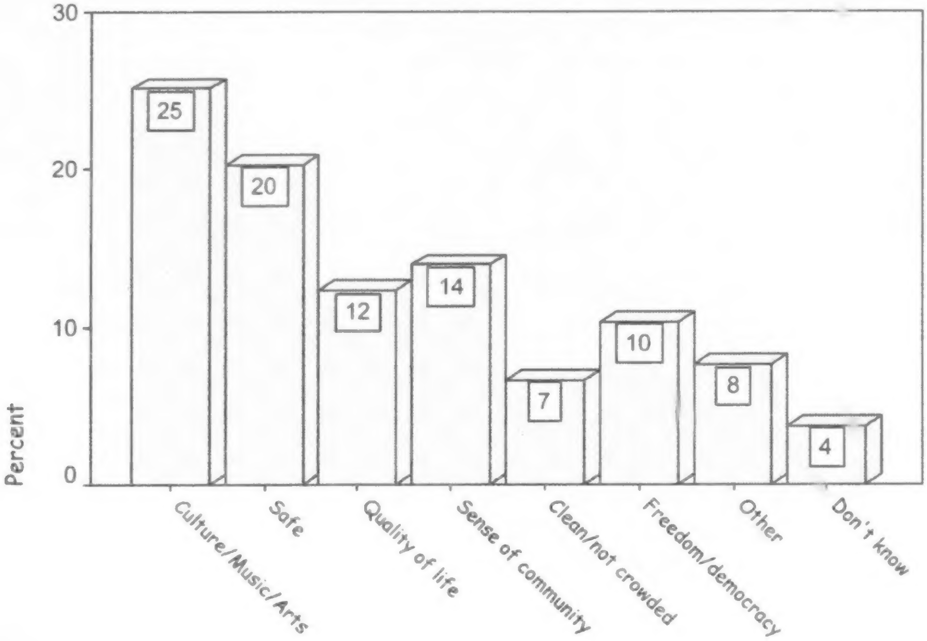
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Not treated with respect/fairly by Fed Govt	47.1%	57.1%	66.7%	40.3%	43.2%	51.4%
Not treated with respect/fairly by other Cdns	21.4%	19.6%	36.7%	21.0%	24.3%	26.3%
Fed Govt not really concerned/ignores us	17.1%	5.40	31.7%	8.1%	8.1%	14.5%
Have no/little say/influence with Fed Govt	8.6%	7.1%	21.7%	16.1%	12.2%	14.2%
Equalization formula	45.7%	14.3%	26.7%	17.7%	25.7%	24.3%
Mismanagement of the fishery	2.9%	7.1%	6.7%	9.7%	4.1%	5.9%
No control over natural resources	21.4%	10.7%	30.0%	25.8%	33.8%	27.4%
Not enough jobs/outmigration for work	2.9%	7.1%	3.3%	3.2%	.00	2.6%
Don't know	.0%		1.2%	6.7%	1.6%	1.9%
Other	14.3%	14.3%	6.7%	12.9%	16.2%	12.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.9 Value Most About Being A Newfoundlander Or Labradorian Or Being Part Of This Province

When asked what they value most about being a Newfoundlander or Labradorian, or being part of this province, one-quarter (25%) of all respondents said 'culture/music/arts' on a first-mention, unaided basis followed by 'safe' (20%), 'sense of community/friendliness of the people' (14%), 'quality of life/good place to raise a family' (10%), 'freedom/democracy' (12%), and 'clean/not crowded' (7%).

VALUE MOST ABOUT BEING A NF/LAB OR PART OF NL

1ST - MENTION



Q#8 What do you value most about being a Newfoundlander or Labradorian or being part of this province?

The following table shows that regionally, more respondents in St. John's (28%) mentioned 'culture/music/arts' on a first-mention basis in comparison to the other regions. Furthermore, more respondents in the Western region (28%) mentioned 'safe' than those in the other regions. 'Sense of community/friendliness of the people' was mentioned by more of those in St. John's (19%) while 'clean/not crowded' was mentioned by more in Labrador (13%), 'freedom/democracy' was mentioned by more in the Avalon (15%) and Central (15%) regions, and 'quality of life/good place to raise a family' was mentioned by more in the Western (15%) region in comparison to the other regions.

VALUE MOST ABOUT BEING A NFLDER OR LABRADORIAN OR PART OF NL - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Culture/Music/Arts	20.0%	25.1%	24.0%	24.1%	27.5%	25.2%
Safe	12.7%	28.0%	23.3%	22.6%	13.6%	20.2%
Quality of life/place to raise a family	9.1%	14.9%	11.1%	10.9%	13.3%	12.4%
Sense of community/friendly people	14.5%	10.9%	11.8%	9.5%	18.9%	13.9%
Clean/not crowded/scenery	12.7%	3.4%	6.8%	5.8%	7.4%	6.6%
Freedom/democracy	9.1%	5.7%	15.2%	14.6%	6.8%	10.3%
Other	20.0%	6.9%	4.4%	8.0%	8.9%	7.7%
Don't know	1.8%	5.1%	3.4%	4.4%	3.6%	3.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions for what respondents said they value most about being a Newfoundlander and Labradorian, or being part of this province the following table shows that overall 34% mentioned 'culture/music/arts' followed by 'safe' (31%), 'quality of life/good place to raise a family' (31%), 'sense of community/friendliness of the people' (28%), 'clean/ not crowded' (18%), and 'freedom/democracy' (13%).

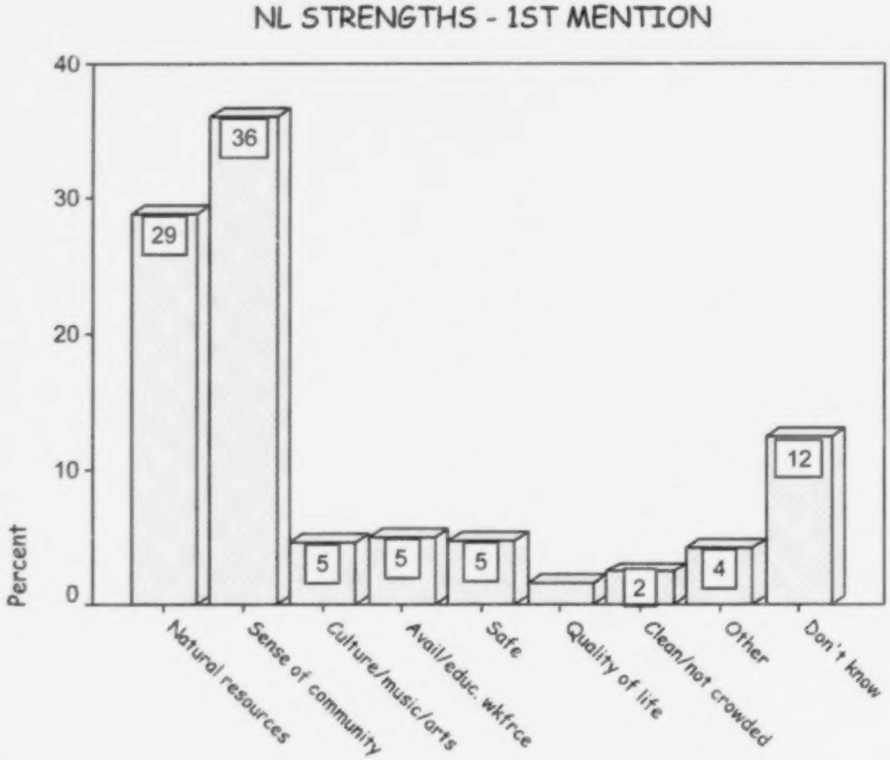
VALUE MOST ABOUT BEING A NFLDER OR LABRADORIAN OR PART OF NL - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Culture/Music/Arts	32.5%	36.8%	34.0%	29.2%	34.3%	33.8%
Safe	27.3%	35.3%	39.7%	29.7%	21.6%	30.8%
Quality of life/place to raise a family	28.9%	32.8%	39.2%	29.7%	25.0%	31.4%
Sense of community/friendly people	28.9%	26.4%	30.1%	19.8%	30.9%	28.3%
Clean/not crowded/scenery	42.3%	10.4%	16.3%	17.7%	18.6%	17.6%
Freedom/democracy	12.4%	7.5%	17.7%	18.8%	8.3%	12.6%
Other	51.5%	14.4%	15.8%	13.0%	9.8%	15.1%
Don't know	1.8%	5.1%	3.4%	4.4%	3.6%	3.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.10 This Province's Greatest Strengths

Respondents were asked to articulate this province's strengths. On a first mention, unaided basis just, over one-third (36%) of respondents said 'sense of community/friendliness of the people'. Another three in ten (29%) mentioned this province's 'natural resources' followed more distantly by 'culture/music/arts' (5%), 'safe' (5%), and 'available/educated workforce' (5%).



Q#9 What are this province's greatest strengths?

Regionally, more respondents outside Labrador and St. John's mentioned 'natural resources' first as a strength of this province in comparison to those in these two regions. Fewer respondents in the Western region mentioned 'sense of community/friendly people' in comparison to the other regions.

NL STRENGTHS - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Natural resources	25.9%	30.7%	31.1%	31.9%	24.9%	28.8%
Sense of community/friendly people	33.3%	25.0%	38.9%	32.6%	41.2%	36.1%
Culture/music/arts	5.6%	7.4%	1.4%	4.3%	5.9%	4.6%
Available/educated workforce/willing to work	5.6%	3.4%	4.7%	4.3%	6.2%	5.0%
Safe	7.4%	5.7%	5.7%	2.9%	3.9%	4.8%
Quality of life/lifestyle/raise a family		1.1%	2.0%	3.6%	.9%	1.6%
Clean/not crowded	5.6%	1.7%	2.4%	.7%	3.0%	2.4%
Other	7.4%	4.0%	4.7%	4.3%	3.6%	4.3%
Don't know	9.3%	21.0%	9.1%	15.2%	10.4%	12.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions for strengths of this province, the following table shows that overall 60% mentioned 'natural resources', followed by 'sense of community/friendliness of the people' (41%), 'culture/music/arts' (15%) and 'available/educated workforce' (10%).

NL STRENGTHS - ANY MENTION (RECODED)

% within REGION

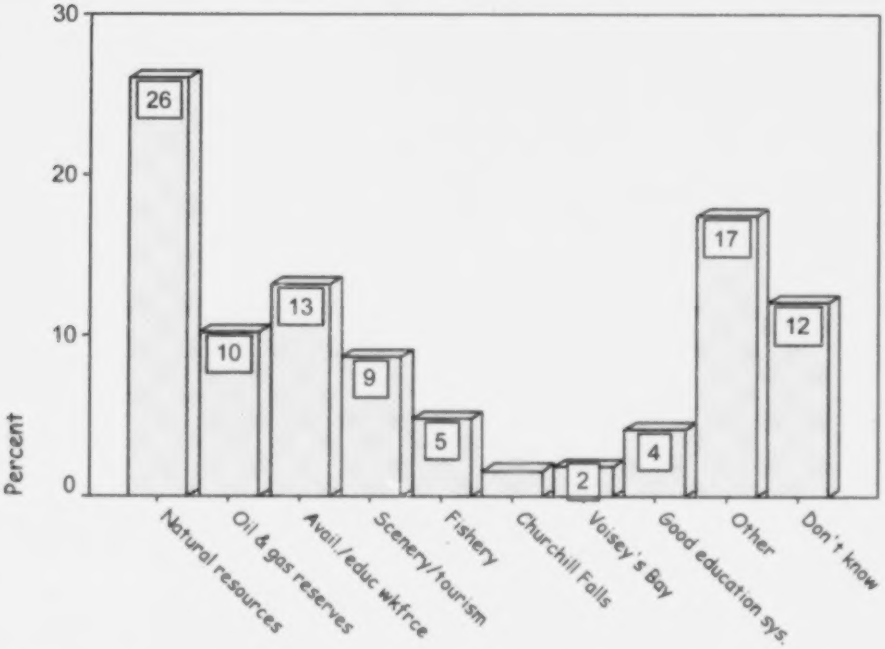
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Natural resources	88.7%	66.7%	58.9%	68.2%	48.5%	59.6%
Sense of community/friendly people	42.8%	27.9%	43.1%	35.4%	46.6%	40.5%
Culture/music/arts	13.9%	14.4%	12.9%	9.4%	18.6%	14.7%
Available/educated workforce/willing to work	14.9%	7.0%	11.0%	8.3%	10.8%	10.1%
Safe	8.2%	5.5%	5.7%	2.6%	3.9%	4.8%
Quality of life/lifestyle/raise a family	5.20	6.0%	2.9%	4.7%	2.0%	3.5%
Clean/not crowded	11.9%	3.0%	2.9%	2.1%	3.9%	3.6%
Other	19.1%	5.5%	7.2%	8.9%	5.9%	7.3%
Don't know	9.3%	21.0%	9.1%	15.2%	10.4%	12.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.11 One Strength, Opportunity, Or Advantage This Province Should Focus on To Achieve Greater Prosperity

After articulating the strengths of the province, respondents were then asked what one strength, opportunity or advantage this province should focus on to achieve greater prosperity and self-reliance. Approximately one-quarter (26%) said 'natural resources' followed more distantly by 'available/educated workforce' (13%), 'oil and gas reserves' (10%), 'scenery/coastline/tourism' (9%), 'fishery' (5%), 'good education system' (4%), 'Voisey's Bay' (2%), and 'Churchill Falls' (2%).

ONE STRENGTH SHOULD FOCUS ON TO

ACHIEVE PROSPERITY



Q#10 What one strength, opportunity, or advantage should this province focus on to achieve greater prosperity?

Regionally, more respondents in Labrador than in any of the other regions mentioned 'natural resources' (33%) as a strength on which this province should focus in order to achieve greater prosperity and self-reliance. More respondents in the Avalon (13%) and St. John's (13%) regions recommended focusing on this province's 'oil and gas reserves' in comparison to the other regions. More of those in the Western (11%) region mentioned 'scenery/coastline/tourism' as an area on which the province should focus than in any of the other regions…as outlined in the table that follows.

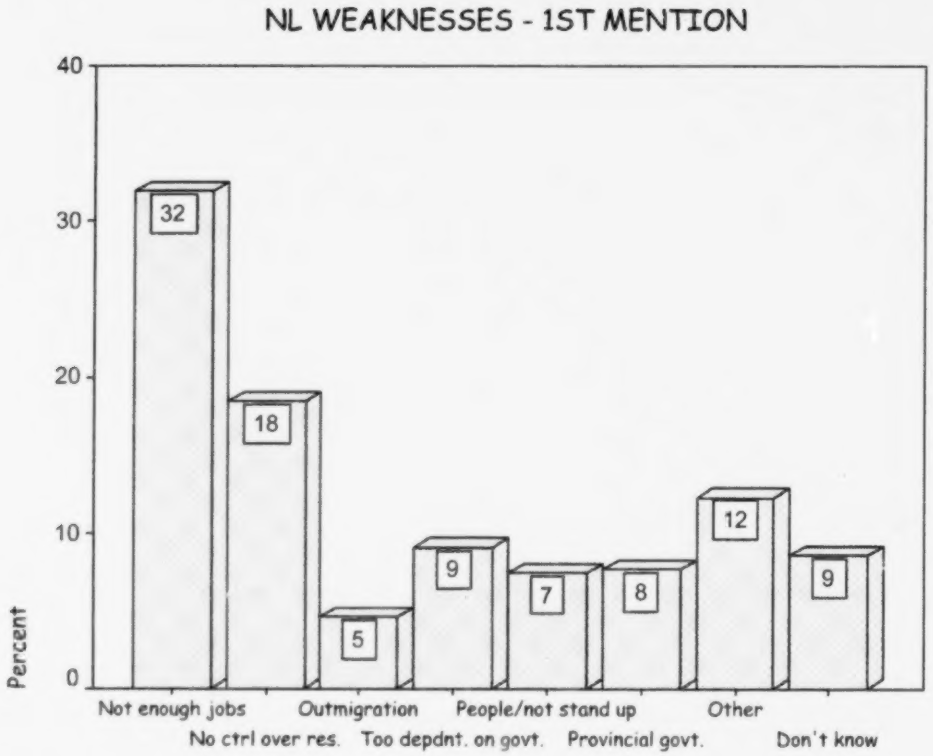
ONE STRENGTH FOCUS ON TO ACHIEVE PROSPERITY (RECODED)

% within REGION

		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/Sth/Burin	Avalon	St. John's CMA	Total
	Natural resources in general	33.3%	26.3%	27.6%	24.3%	24.0%	26.0%
	Oil & gas reserves	.0%	5.7%	10.1%	12.5%	13.4%	10.2%
	Available/educated workforce	7.4%	14.3%	15.2%	8.8%	13.4%	13.1%
	Scenery/coastline/tourism	7.4%	11.4%	7.7%	2.9%	10.7%	8.7%
	Fishery	3.7%	5.7%	7.7%	8.1%	.9%	4.9%
	Churchill Falls	3.7%	1.7%	2.4%	1.5%	.6%	1.6%
	Voisey's Bay	7.4%	1.7%		2.9%	2.4%	1.9%
	Good education system	7.4%	2.3%	3.4%	5.1%	5.0%	4.2%
	Other	25.9%	12.6%	17.5%	16.2%	19.0%	17.4%
	Don't know	3.7%	18.3%	8.4%	17.6%	10.7%	11.9%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.12 This Province's Greatest Weaknesses

Respondents were also asked to indicate what they feel are this province's weaknesses. On a first mention, unaided basis approximately one-third (32%) of respondents said 'not enough jobs' and 18% said 'no control over natural resources' followed much further behind by 'too dependent on government' (9%), 'provincial government/leadership/politicians' (8%), 'people/not stand up for themselves/lack confidence' (7%), and 'outmigration' (5%).



Q#11 What are this province's greatest weaknesses?_

Regionally, more respondents in the Central (48%) region mentioned 'not enough jobs' while fewer respondents in St. John's (20%) mentioned this as a weakness. 'Lack of control over natural resources' was mentioned by more respondents in the Western region (23%) as outlined in the table that follows.

NL WEAKNESSES - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Not enough jobs	26.9%	31.3%	48.2%	29.6%	19.7%	31.8%
Lack of control over natural resources	17.3%	22.7%	19.6%	16.8%	15.9%	18.4%
Outmigration/decreasing population	1.9%	4.9%	4.7%	4.0%	5.3%	4.7%
Too dependent on governments	11.5%	6.1%	9.8%	6.4%	10.9%	9.2%
People/not stand up/whine/passive/lack confidence	5.8%	5.5%	4.0%	7.2%	11.9%	7.5%
Provincial government/leadership/politicians	7.7%	10.4%	2.9%	11.2%	8.8%	7.6%
Other	17.3%	10.4%	6.2%	10.4%	18.1%	12.2%
Don't know	11.5%	8.6%	4.7%	14.4%	9.4%	8.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions for weaknesses of this province, the following table shows that approximately one-third (32%) of respondents said 'not enough jobs' and 27% said 'no control over natural resources' followed much further behind by 'outmigration' (17%), 'too dependent on government' (12%), 'provincial government/leadership/politicians' (10%), and 'people/not stand up for themselves/lack confidence' (10%).

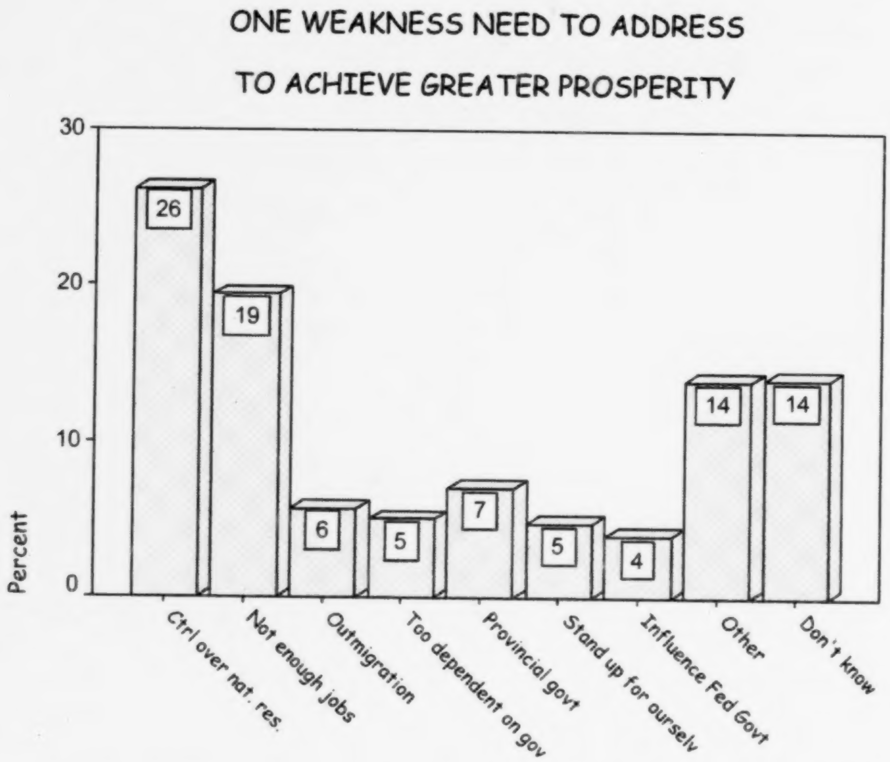
NL WEAKNESSES - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Not enough jobs	28.2%	31.6%	47.7%	29.4%	20.1%	32.0%
Lack of control over natural resources	34.6%	27.9%	33.5%	23.2%	20.1%	26.6%
Outmigration/decreasing population	8.5%	11.6%	27.4%	14.1%	12.9%	16.9%
Too dependent on governments	14.9%	7.9%	12.2%	7.9%	14.4%	11.8%
People/not stand up/whine/passive/lack confidence	9.0%	8.4%	5.6%	11.3%	12.9%	9.5%
Provincial government/leadership/pol iticians	10.6%	13.2%	7.1%	13.0%	9.8%	10.1%
Other	46.8%	22.6%	17.8%	21.5%	24.7%	23.1%
Don't know	11.5%	8.6%	4.7%	14.4%	9.4%	8.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.13 One Weakness Or Obstacle Need To Address To Achieve Greater Prosperity And Self-Reliance

After articulating the weaknesses of the province, respondents were then asked what one weakness or obstacle this province needs to address to achieve greater prosperity and self-reliance. Approximately one-quarter (26%) said ‘no control over natural resources’ and 19% said ‘not enough jobs’ followed more distantly by ‘provincial government/leadership/ politicians’ (7%), ‘outmigration’ (6%), ‘too dependent on government’ (5%), and ‘people/not stand up for themselves/lack confidence’ (5%).



Q#12 What one weakness or obstacle do we need to address to achieve greater prosperity and self-reliance?

Regionally, more respondents in Central (32%) mentioned 'not enough control over natural resources' in comparison to the other regions. Likewise, the table that follows shows that more respondents in this region mentioned 'not enough jobs' than in the other regions.

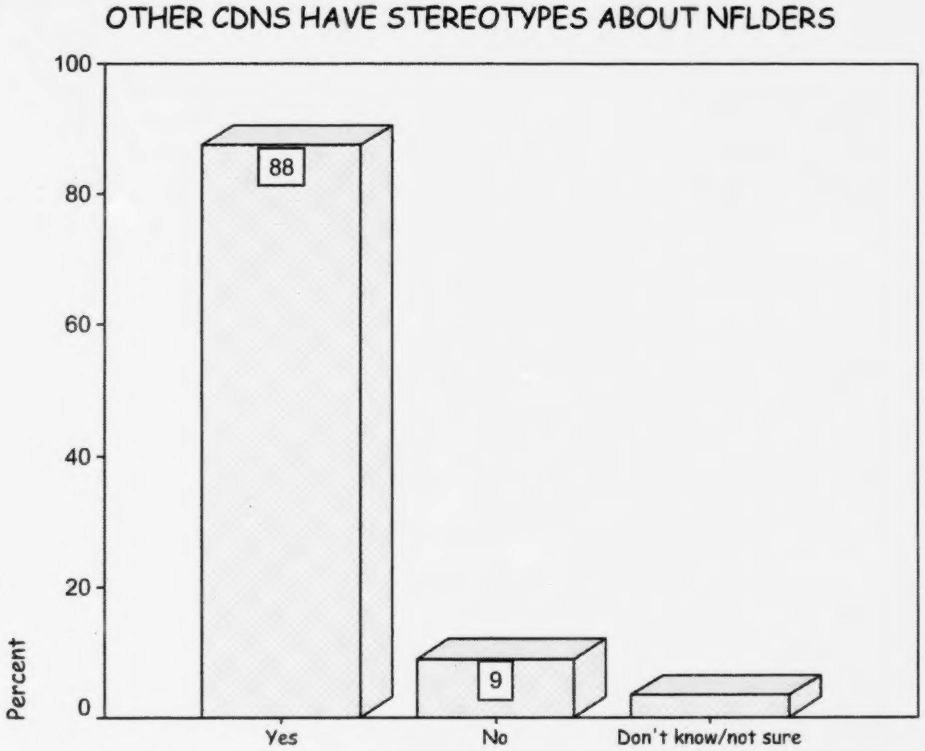
ONE WEAKNESS NEED TO ADDRESS TO ACHIEVE GREATER PROSPERITY (RECODED)

% within REGION

		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	Not enough control over natural resources	27.8%	24.6%	32.0%	22.2%	23.5%	26.3%
	Not enough jobs	16.7%	21.7%	27.9%	20.7%	10.4%	19.4%
	Outmigration	3.7%	4.6%	5.7%	5.2%	6.8%	5.7%
	Too dependent on government	5.6%	1.7%	4.4%	3.7%	7.7%	5.0%
	Provincial government/leadership/politicians	3.7%	8.6%	6.7%	9.6%	6.0%	7.0%
	Not stand up for ourselves/lack self confidence	3.7%	5.1%	4.4%	4.4%	5.4%	4.8%
	No real influence with Fed govt/need more co-operation	5.6%	4.6%	3.4%	3.0%	4.5%	4.0%
	Other	20.4%	10.9%	9.4%	11.9%	19.0%	13.8%
	Don't know	13.0%	18.3%	6.1%	19.3%	16.7%	13.9%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.14 Perception of Whether Other Canadians Have Stereotypes About Newfoundlanders And Labradorians

Almost nine in ten (88%) respondents perceived that other Canadians have stereotypes about Newfoundlanders and Labradorians. There was no significant variation in opinion by region.



Q#13 Do you think that other Canadians have stereotypes about Newfoundlanders and Labradorians?

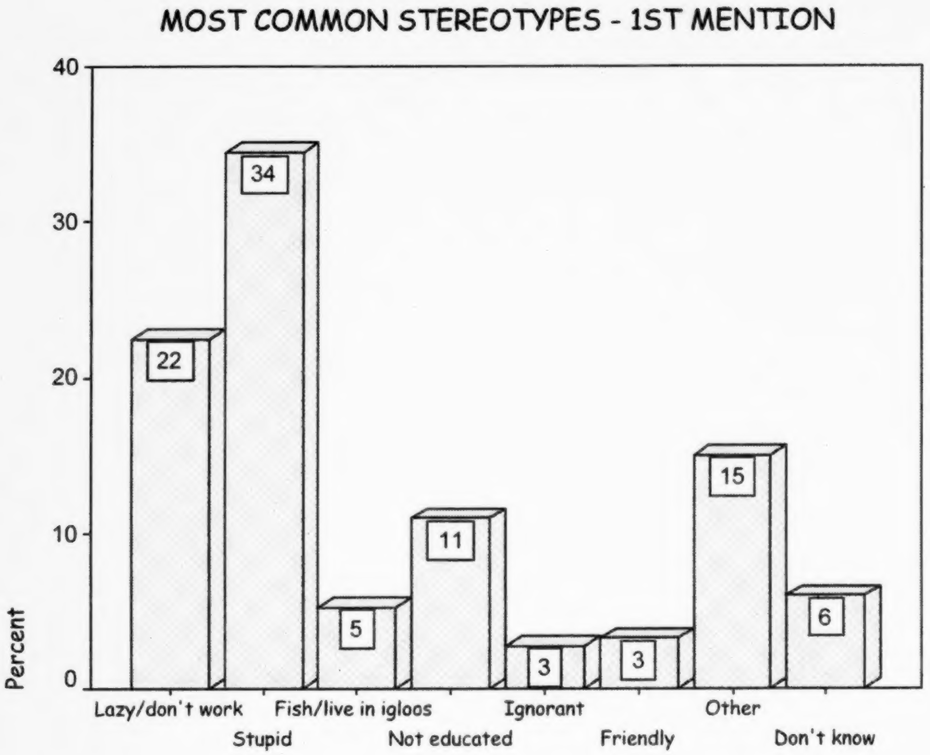
OTHER CANADIANS HAVE STEREOTYPES ABOUT NFLDERS

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Yes	85.2%	87.4%	86.5%	85.2%	89.6%	87.5%
No	7.4%	7.4%	10.1%	9.6%	8.9%	9.0%
Don't know/not sure	7.4%	5.1%	3.4%	5.2%	1.5%	3.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.15 Most Common Stereotypes About Newfoundlanders And Labradorians

On a first mention, unaided basis one in three (34%) respondents said 'stupid' as a common stereotype of Newfoundlanders and Labradorians by other Canadians followed by 'lazy/don't work/don't want to work' (22%), 'not educated' (11%), and 'fish/live in igloos' (5%).



Q#14 What do you believe are the most common stereotypes about Newfoundlanders and Labradorians?

Regionally, more respondents in the Western region (29%) mentioned 'lazy/don't work/don't want to work' as a stereotype while more in the Central region mentioned 'stupid' (41%).

MOST COMMON STEREOTYPES - 1ST MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Lazy/don't work/only want EI	21.7%	28.9%	19.8%	18.4%	22.8%	22.4%
Stupid	28.3%	36.2%	40.9%	31.6%	30.7%	34.6%
Fish/live in igloos	4.3%	2.6%	2.3%	3.5%	9.9%	5.3%
Not educated	13.0%	9.9%	13.6%	7.0%	10.2%	10.9%
Ignorant	.0%	4.6%	2.7%	2.6%	2.3%	2.8%
Friendly	8.7%	2.0%	3.1%	3.5%	2.6%	3.1%
Other	17.4%	11.8%	9.7%	22.8%	17.5%	14.9%
Don't know	6.5%	3.9%	7.8%	10.5%	4.0%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Combining all mentions, almost half (46%) of all respondents mentioned 'lazy/don't work/don't want to work' while nearly as many said 'stupid' (45%) as a common stereotype of Newfoundlanders and Labradorians by other Canadians. The following table also shows that overall 24% also mentioned 'not educated' as a common stereotype as well as 'fish/live in igloos' (9%), 'ignorant' (8%), and 'friendly' (7%).

MOST COMMON STEREOTYPES - ANY MENTION (RECODED)

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Lazy/don't work/only want EI	50.9%	61.9%	46.7%	32.5%	41.0%	45.7%
Stupid	40.6%	48.9%	52.7%	39.9%	38.3%	44.7%
Fish/live in igloos	6.1%	3.4%	8.2%	5.5%	13.1%	8.6%
Not educated	32.1%	23.9%	33.0%	14.7%	19.7%	24.3%
Ignorant	9.1%	10.8%	7.7%	5.5%	7.7%	8.0%
Friendly	11.5%	8.5%	7.1%	5.5%	4.9%	6.6%
Other	30.3%	21.6%	20.9%	38.7%	23.5%	24.8%
Don't know	6.5%	3.9%	7.8%	10.5%	4.0%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

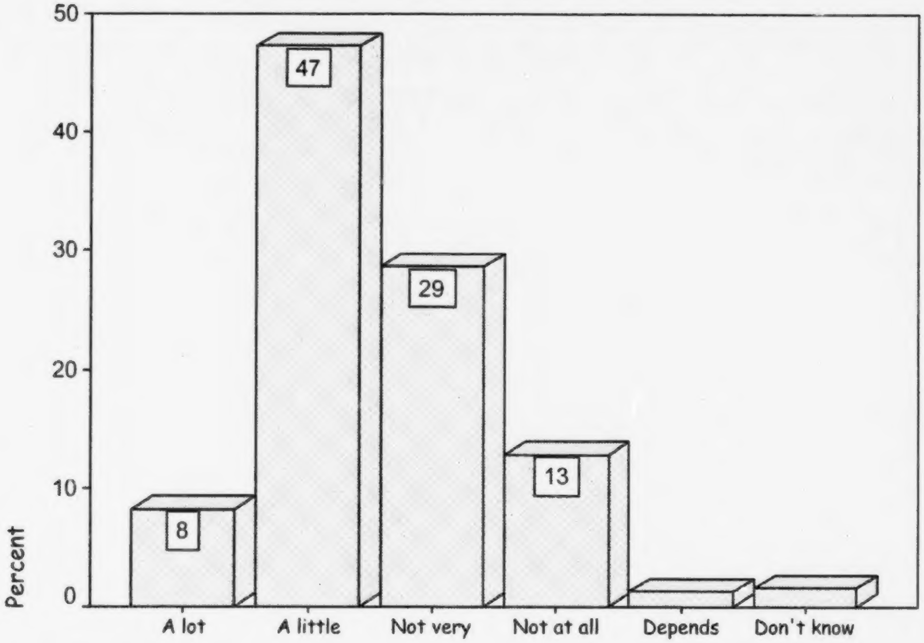
2.16 Extent Feel That Newfoundland And Labrador Is Treated With Respect By The Federal Government

Very few respondents perceived that Newfoundland and Labrador is treated with respect by the Federal Government. Only 8% of respondents said this province gets 'a lot' of respect while 47% said 'a little'. Over four in ten (42%) were more negative and said 'not very' (29%) or 'not at all' (13%) in terms of the extent of respect this province receives from the Federal Government.

Those who said 'not at all' included a higher than average (13%) proportion of the following segments:

- Retirees (20%)
- Those with less than high school education (19%)
- Those aged 65 or more (20%)
- Those who would 'strongly' oppose governments taking a harder line and making tougher decisions (19%)
- Those who 'strongly' agreed that this province is ignored by the Federal Government (21%)
- Those who 'strongly' disagreed that Confederation has been a good thing for NL (40%)
- Those who felt that this province should leave Canada (29%)
- Those who felt that the Federal Government does not treat this province as part of the Atlantic region (21%)
- Those who felt that the Federal Government is not taking any steps to rebuild the fishery (26%)
- Those who indicated being 'very dissatisfied' with this province's place in Canada (43%)

EXTENT TO WHICH NL TREATED WITH RESPECT BY FEDERAL GOVERNMENT



Q#15 All things considered, to what extent do you feel that Newfoundland and Labrador is treated with respect by the Federal Government?

Regionally, more respondents in the Avalon region (49%) said 'not very' or 'not at all' in terms of the amount of respect this province gets from the Federal Government. Conversely, the table that follows shows that more respondents in Labrador (61%) gave more favourable ratings to the Federal Government in this regard than those in the other regions.

EXTENT TO WHICH NL TREATED WITH RESPECT BY FEDERAL GOVT.

% within REGION

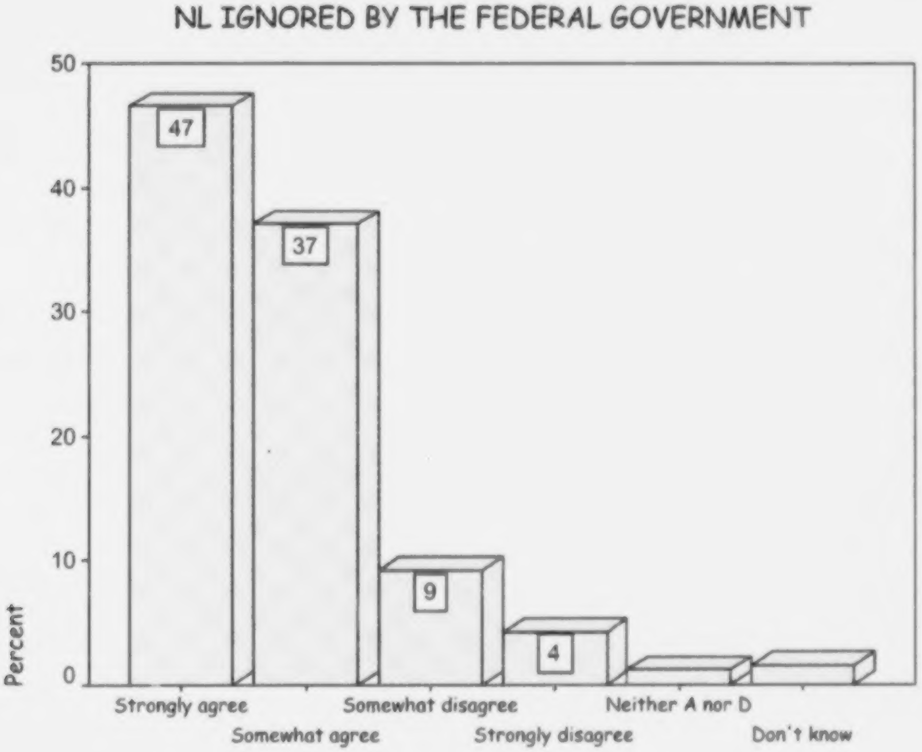
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
A lot	10.9%	7.4%	8.1%	8.1%	8.3%	8.2%
A little	50.9%	47.4%	45.8%	39.7%	51.0%	47.3%
Not very	27.3%	28.0%	33.3%	31.6%	24.0%	28.7%
Not at all	7.3%	13.7%	10.4%	16.9%	13.6%	12.8%
Depends	1.8%	1.1%	1.0%	2.2%	1.5%	1.4%
Don't know	1.8%	2.3%	1.3%	1.5%	1.5%	1.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.17 Agree Or Disagree That Newfoundland And Labrador Is Often Ignored By The Federal Government

The majority of respondents (84%) felt that the Federal Government ignores Newfoundland and Labrador including almost half (47%) who 'strongly agreed' that Newfoundland and Labrador is often ignored by the Federal Government and 37% who 'somewhat agreed' with this statement. Only 13 % of all respondents disagreed with this statement.

Those who 'strongly agreed' with this statement included a higher than average (47%) proportion of the following segments:

- Retirees (55%)
- Those aged 50 to 64 or more (56%)
- Those with household incomes of $70K or more (55%)
- Those who would 'strongly' oppose governments taking a harder line and making tougher decisions (52%)
- Those who felt that this province receives less than its fair share of the money distributed by the Federal Government (54%)
- Those who 'strongly' disagreed that Confederation has been a good thing for NL (76%)
- Those who 'somewhat' disagreed that Confederation has been a good thing for NL (58%)
- Those who felt that this province should leave Canada (68%)
- Those who felt that the Federal Government does not treat this province as part of the Atlantic region (65%)
- Those who 'strongly support' equal representation in the Senate (56%)
- Those who felt that the Federal Government is not taking any steps to rebuild the fishery (66%)
- Those who indicated that the province should take a confrontational and aggressive approach in dealing with the Federal Government in the future (60%)
- Those who indicated being 'very dissatisfied' with this province's place in Canada (75%)
- Those who indicated being 'somewhat dissatisfied' with this province's place in Canada (61 %)



Q#16 Do you agree or disagree that Newfoundland and Labrador is often ignored by the Federal Government?

The table that follows shows that regionally, more respondents in the Avalon region (22%) disagreed that this province is often ignored by the Federal Government and conversely, more in the Western (88%) region agreed with this statement.

NL IGNORED BY THE FEDERAL GOVERNMENT

% within REGION

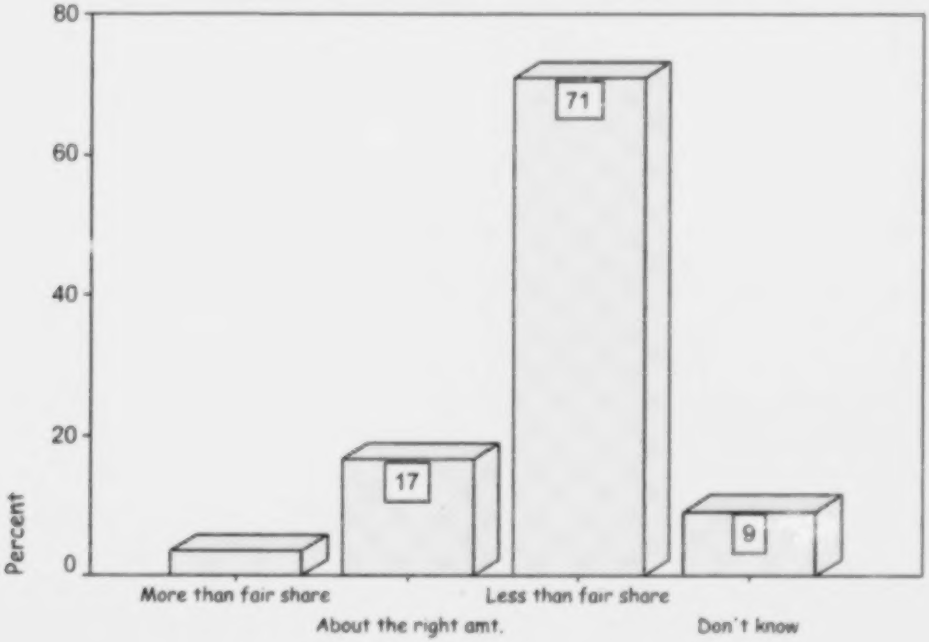
		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	Strongly agree	41.8%	49.1%	48.5%	45.6%	44.6%	46.5%
	Somewhat agree	40.0%	38.9%	37.7%	29.4%	38.4%	37.1%
	Somewhat disagree	9.1%	6.9%	7.7%	15.4%	9.2%	9.2%
	Strongly disagree	5.5%	3.4%	3.4%	6.6%	4.5%	4.3%
	Neither A nor D	1.8%	1.1%	1.3%	2.2%	.9%	1.3%
	Don't know	1.8%	.6%	1.3%	.7%	2.4%	1.5%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.18 Perception Of The Fairness Of The Distribution of Money By The Federal Government To The Provinces And Territories

Seven in ten (71%) respondents felt that this province receives 'less than its fair share' of the money that the Federal Government distributes to the provinces and territories. Another 17% felt that Newfoundland and Labrador receives 'about the right amount' and 3% even believed that this province receives 'more than it's fair share'.

FAIRNESS OF THE DISTRIBUTION OF

MONEY TO NL BY THE FEDERAL GOVT.



Q#17 Thinking about the money that the Federal Government distributes to the provinces and territories, do you feel this province receives...

Regionally, more of those in the Western (77%) and Central (76%) regions felt that this province receives 'less than its fair share' of the money the Federal Government distributes to the provinces and territories in comparison to those in the Avalon (68%), St. John's (66%), and Labrador (62%) regions as outlined in the table that follows.

HOW FAIR IS THE DISTRIBUTION OF MONEY TO NL FROM FEDERAL GOVT.

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
More than its fair share	3.6%	3.4%	3.4%	2.2%	3.9%	3.4%
About the right amount	20.0%	12.0%	14.8%	19.9%	18.7%	16.6%
Less than its fair share	61.8%	77.1%	75.8%	68.4%	65.6%	70.8%
Don't know	14.5%	7.4%	6.1%	9.6%	11.9%	9.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.19 Perception of Whether Confederation Has Been A Good Thing For This Province

Overall, almost three-quarters (74%) agreed that Confederation has been a good thing for Newfoundland and Labrador including one in three (35.5%) respondents who 'strongly agreed' that Confederation has been a good thing for Newfoundland and Labrador and 38.5% who 'somewhat agreed' that Confederation has been a good thing. Nevertheless, almost two in ten (18%) Newfoundlanders and Labradorians disagreed that Confederation has been a good thing for the province including 8% who 'strongly disagreed'. Another 3% were more neutral and volunteered that they 'neither agreed nor disagreed' with the statement and 5% could not articulate any opinion and said 'don't know'.

Those who 'strongly agreed' that Confederation has been a good thing included a higher than average (35.5%) proportion of the following segments:

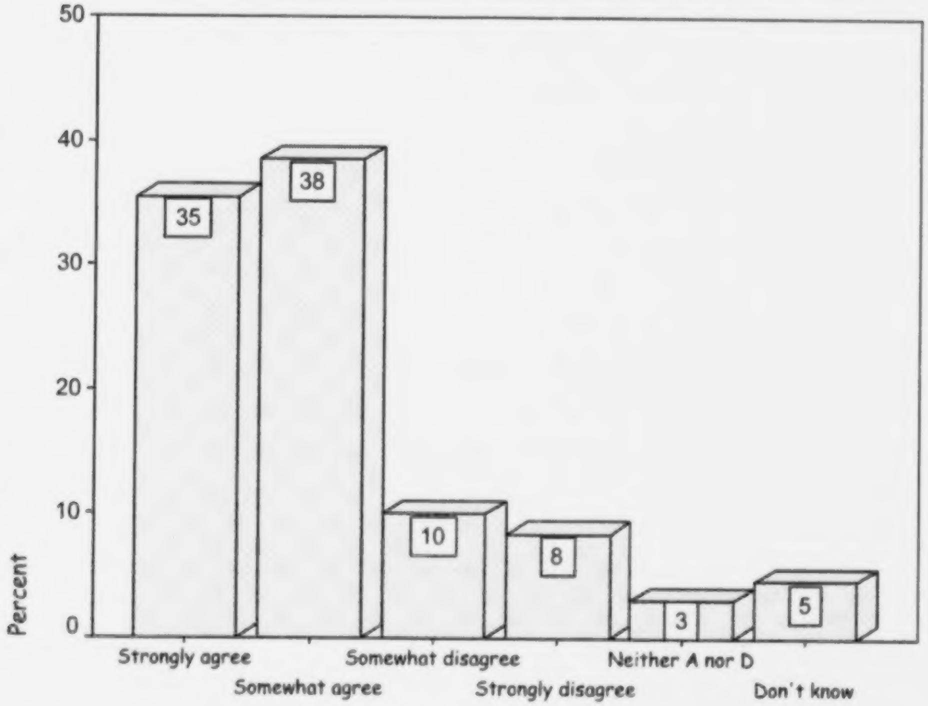
- Females (40%)
- Those in Labrador (44%)
- Homemakers (47%)
- Those aged 65 or more (44%)
- Pink-grey collar employees (those in sales or clerical/administrative positions)
- Those who said that people in rural communities should move to find work (41%)
- Those who felt that this province receives more than its fair share of money distributed by the Federal Government (57%)
- Those who felt that this province receives about the right amount of money distributed by the Federal Government (58%)
- Those who felt that this province should not leave Canada (41%)
- Those who felt that the Federal Government treats this province as part of the Atlantic region (48%)
- Those who would 'strongly oppose' equal representation in the Senate (49%)

- Those who felt that the Federal Government is taking 'a lot' of steps to rebuild the fishery (53%)
- Those who indicated being 'very satisfied' with this province's place in Canada (58%)
- Those who indicated being 'somewhat satisfied' with this province's place in Canada (41%)
- Those who disagreed 'strongly' that the Federal Government ignores this province (44%)
- Those who disagreed 'somewhat' that the Federal Government ignores this province (59%)

Those who 'strongly' or 'somewhat' disagreed that Confederation has been a good thing included a higher than average (18%) proportion of the following segments:

- Those who would 'strongly' oppose governments taking a harder line and making tougher decisions (28%)
- Those who felt that this province should leave Canada (64%)
- Those who felt that the Federal Government does not treat this province as part of the Atlantic region (28%)
- Those who felt that the Federal Government is not taking any steps to rebuild the fishery (27%)
- Those who indicated that the province should take a confrontational and aggressive approach in dealing with the Federal Government in the future (27%)
- Those who indicated being 'very dissatisfied' with this province's place in Canada (30%)
- Those who indicated being 'somewhat dissatisfied' with this province's place in Canada (61%)

CONFEDERATION A GOOD THING FOR NL



Q#18 All things considered, do you agree or disagree that Confederation has been a good thing for this province?

Regionally, as outlined in the table that follows, more respondents in Labrador (81%) and the Central region (80%) felt that Confederation has been a good thing for this province versus those in the Western (72%), Avalon (71%), and St. John's (70%) regions.

EXTENT OF AGREEMENT THAT CONFEDERATION A GOOD THING FOR NL

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Strongly agree	44.4%	35.8%	38.6%	39.7%	29.4%	35.5%
Somewhat agree	37.0%	35.8%	40.9%	31.6%	40.7%	38.5%
Somewhat disagree	7.4%	6.8%	7.7%	8.1%	14.8%	10.0%
Strongly disagree	5.6%	12.5%	7.7%	11.0%	6.2%	8.4%
Neither A nor D	1.9%	4.5%	1.3%	5.1%	3.0%	3.0%
Don't know	3.7%	4.5%	3.7%	4.4%	5.9%	4.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.20 Should Newfoundland And Labrador Leave Canada And Become An Independent Country

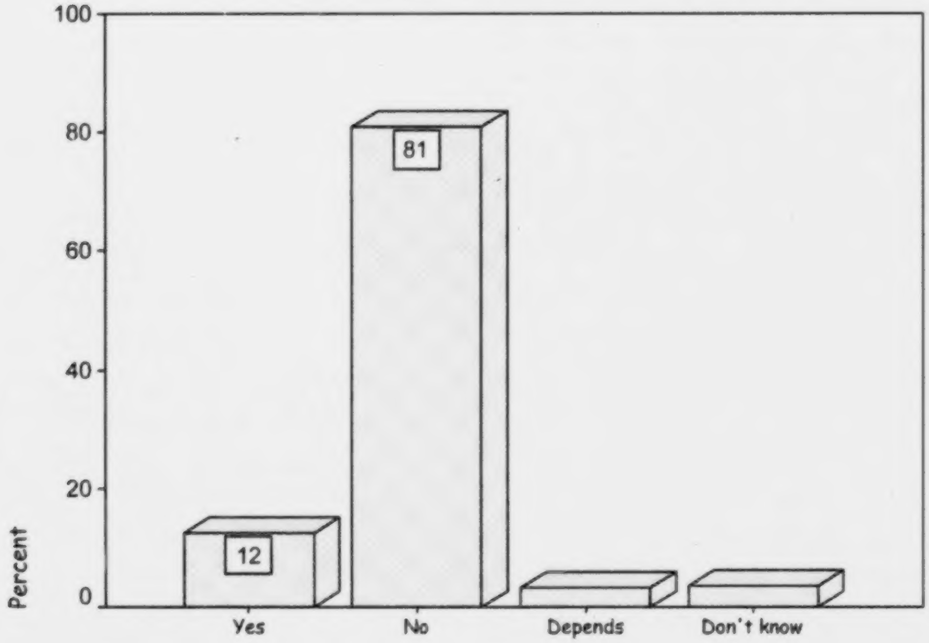
Eight in ten (81%) Newfoundlanders and Labradorians felt that this province should not leave Canada and become a separate country. Nevertheless, 12% felt this province should separate.

Those who felt that this province should leave Canada included a higher than average (12%) proportion of the following segments:

- Those currently seeking work (17%)
- Those with technical/vocational school education (17%)
- Those with annual household incomes of less than $20K (20%)
- Those who felt that the Federal Government does not treat this province as part of the Atlantic region (20%)
- Those who would 'strongly' support equal representation in the Senate (17%)
- Those who felt that the Federal Government is not taking any steps to rebuild the fishery (21%)
- Those who indicated being 'very dissatisfied' with this province's place in Canada (34%)

SHOULD NL LEAVE CANADA

AND BECOME AN INDEPENDENT COUNTRY



Q#19 Do you think Newfoundland and Labrador should leave Canada and become an independent country?

Regionally, slightly more respondents in the Central region (85%) than in any of the other regions indicated that this province should not leave Canada.

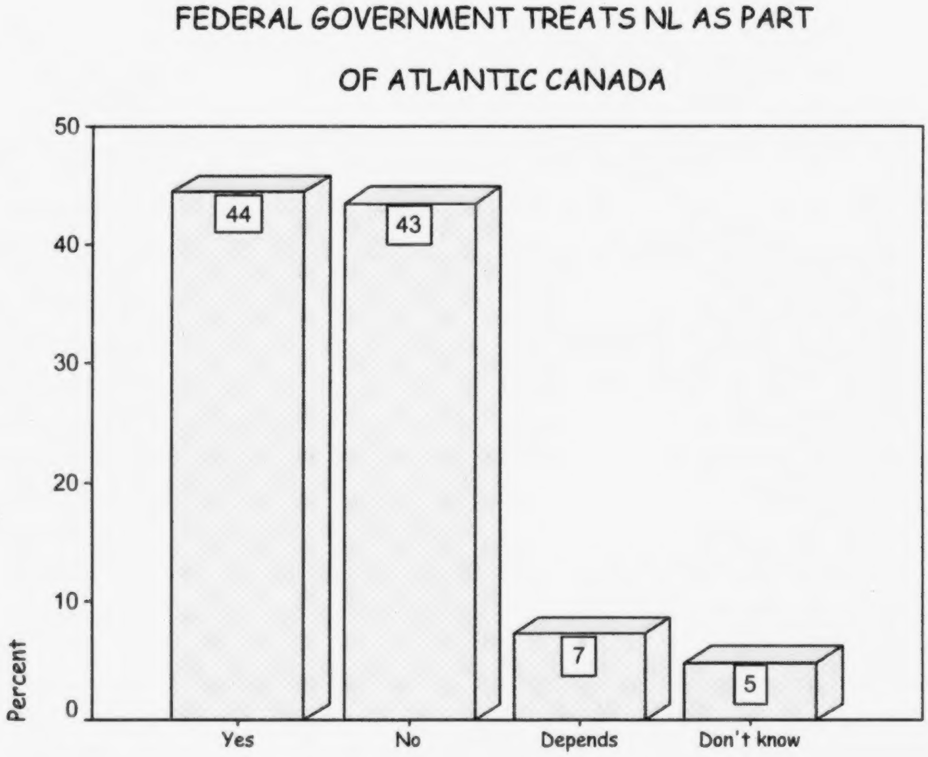
SHOULD NL LEAVE CANADA AND BECOME AN INDEPENDENT COUNTRY

% within REGION

		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	Yes	14.8%	12.0%	11.8%	14.0%	12.2%	12.4%
	No	79.6%	76.6%	84.5%	80.9%	79.8%	80.8%
	Depends	1.9%	8.0%	1.0%	2.2%	3.6%	3.3%
	Don't know	3.7%	3.4%	2.7%	2.9%	4.5%	3.5%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.21 Think That The Federal Government Treats This Province As Part Of The Atlantic Region

Respondents were divided as to whether they feel that the Federal Government treats this province as part of the Atlantic region as 44% said 'yes' and 43% said 'no'. Another said 'it depends' while 5% said 'don't know'.



Q#20 Do you think that the Federal Government treats this province as part of the Atlantic region?

Regionally, more of those in Labrador (51%), St. John's (48%), and the Central region (46%) felt that the Federal Government treats this province as part of Atlantic Canada than those in the Western (37%) and Avalon (38%) regions as outlined in the table that follows.

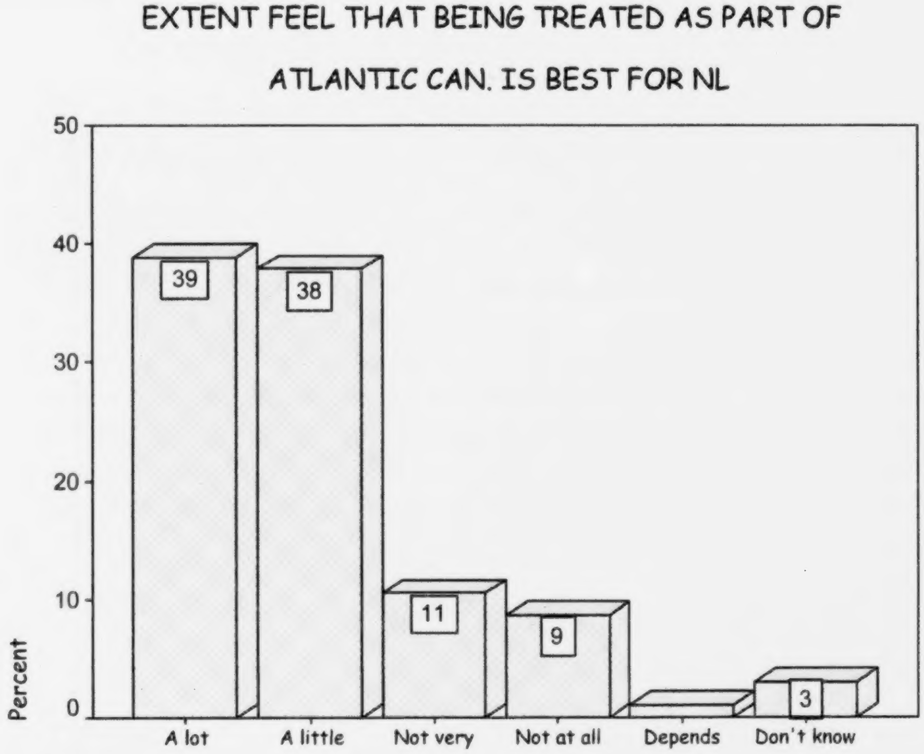
THINK THAT FED. GOVT. TREATS NL AS PART OF ATLANTIC REGION

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Yes	50.9%	37.1%	46.0%	38.2%	47.9%	44.3%
No	38.2%	44.6%	46.6%	42.6%	41.1%	43.4%
Depends	7.3%	9.1%	5.4%	13.2%	5.9%	7.4%
Don't know	3.6%	9.1%	2.0%	5.9%	5.0%	4.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.22 Extent Feel Being Treated As Part Of The Atlantic Region Is In The Best Interest Of This Province

Of the 44% who felt that the Federal Government treats this province as part of the Atlantic region, the majority felt that this is in the best interest of the province as evidenced by the 39% who said 'a lot' and 38% who said 'a little' with regards to the extent to which this is in the best interest of the province. Nevertheless, 20% of this segment did not feel that this was in the best interest of the province.



Q#21 To what extent do you feel this is in the best interest of this province?

Regionally, more of those in the Avalon (84%), Western (80%), and Central (78%) regions felt that being treated as part of the Atlantic region by the Federal Government was in the best interest of the province versus those in Labrador (72%) and St. John's (72%).

EXTENT FEEL BEING TREATED AS PART OF ATLANTIC IS BEST FOR NL

% within REGION

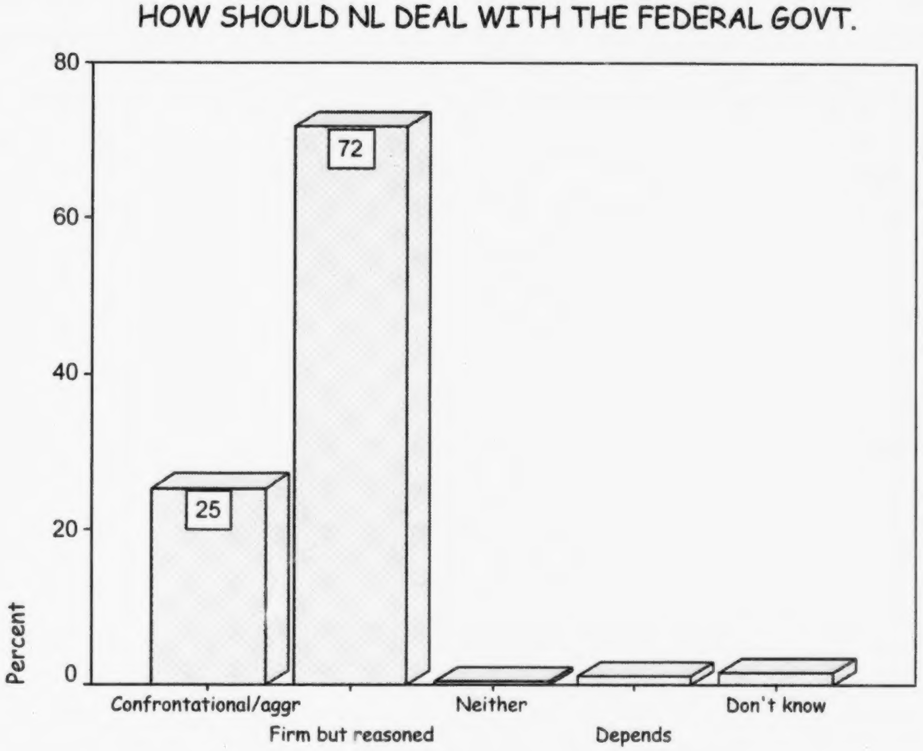
		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	A lot	28.6%	29.2%	36.2%	35.3%	47.6%	38.8%
	A little	42.9%	50.8%	42.0%	49.0%	25.0%	37.9%
	Not very	14.3%	6.2%	10.1%	7.8%	12.2%	10.3%
	Not at all	7.1%	10.8%	9.4%	3.9%	9.1%	8.7%
	Depends	3.6%	3.1%		2.0%	1.2%	1.3%
	Don't know	3.6%		2.2%	2.0%	4.9%	2.9%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.23 What Approach Should The Province Take In Dealing With The Federal Government In The Future

Respondents were asked which of two approaches the province should take in dealing with the Federal Government in the future: a confrontational and aggressive approach or a firm but reasoned approach. Significantly more respondents felt that this province should take 'a firm but reasoned' approach (72%) over 'a confrontational and aggressive' approach (25%).

Those who felt that this province should take 'a confrontational and aggressive approach' included a higher than average (25%) proportion of the following segments:

- Those in the Western region (33%)
- Those in the Central region (31%)
- Those with less than high school education (31%)
- Those who would 'strongly' oppose governments taking a harder line and making tougher decisions (35%)
- Those who would 'strongly' support equal representation in the Senate (32%)
- Those who felt that the Federal Government is not taking any steps to rebuild the fishery (38%)
- Those who indicated being 'very dissatisfied' with this province's place in Canada (40%)
- Those who 'strongly agreed' that this province is ignored by the Federal Government (33%)
- Those who 'strongly disagreed' that Confederation has been a good thing for this province (48%)
- Those who felt that this province should leave Canada (42%)
- Those who felt that this province is not treated with respect by the Federal Government (39%)



Q#22 What do you think our province's approach should be in dealing with the Federal Government in the future?

Regionally, more of those in the Central (31%) and Western (33%) regions favoured 'a confrontational and aggressive' approach than those in the other regions. Those in the St. John's region were most in favour of 'a firm but reasoned approach' (79%) as outlined in the table that follows.

HOW NL SHOULD DEAL WITH THE FEDERAL GOVERNMENT IN THE FUTURE

% within REGION

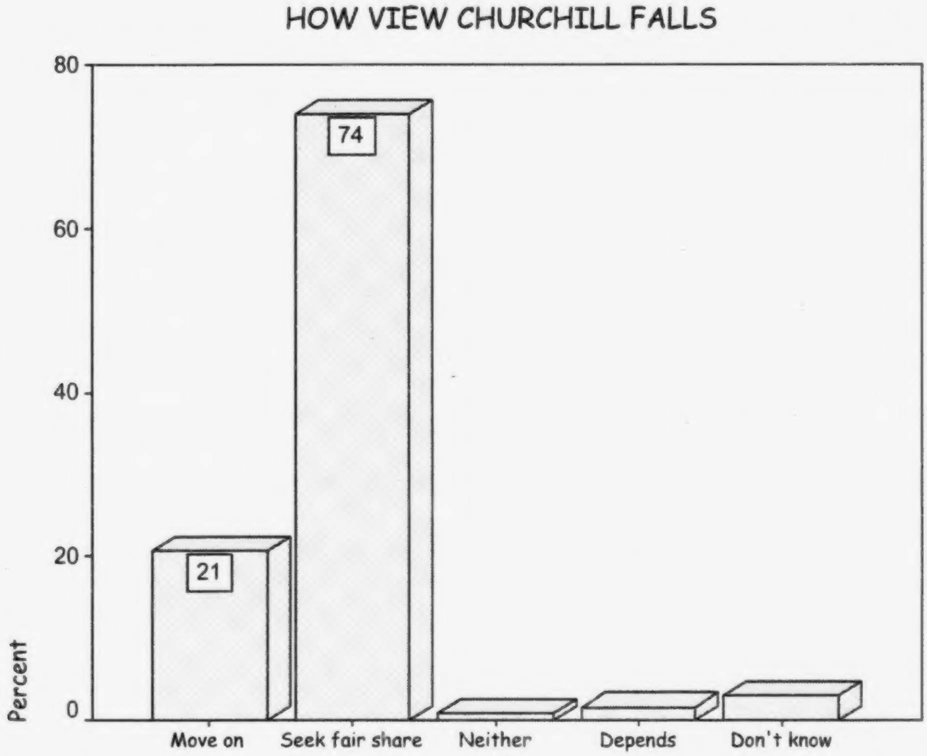
	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
A confrontational and aggressive approach	24.1%	33.3%	30.6%	20.6%	18.7%	25.4%
A firm but reasoned approach	74.1%	63.8%	67.0%	73.5%	78.9%	71.7%
Neither				.7%	.9%	.4%
Depends			1.3%	2.2%	.9%	1.0%
Don't know	1.9%	2.9%	1.0%	2.9%	.6%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.24 Leave The Upper Churchill Deal In The Past And Move On Or Province Continue To Seek Fair Share

Respondents were asked whether the province should 'leave the Upper Churchill deal in the past and move on' or 'continue to seek our fair share by whatever means we can' and a significant majority (74%) said that the province should continue to seek its fair share. Nevertheless, 21% felt that it is time to move on while 3% said 'don't know' and 2% said 'it depends'.

Those who felt that it is time to move on included a higher than average (21%) proportion of the following segments:

- Students (30%)
- College/university graduates (26%)
- Those aged 65 or more (28%)
- Those with household incomes of $70K or more (33%)
- Those who feel that this province receives 'more than its fair share' of the money distributed by the Federal Government (32%)



Q#23 With respect to Churchill Falls, which of the following statements best expresses your view?

More of those in the Avalon (23%) and St. John's (22%) regions felt that it is time to move on and leave the Upper Churchill deal in the past in comparison to those in the other regions… as outlined in the table that follows.

WHICH STATEMENT BEST EXPRESSES VIEWS ABOUT CHURCHILL FALLS

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Leave the Upper Churchill deal in the past and move on	20.4%	20.1%	18.6%	23.0%	22.0%	20.7%
Continue to seek our fair share by whatever means we can	75.9%	75.3%	76.4%	68.1%	73.6%	74.1%
Neither	1.9%	.6%	.3%	.7%	.9%	.7%
Depends	1.9%	2.3%	1.4%	3.7%	.6%	1.6%
Don't know	.0%	1.7%	3.4%	4.4%	3.0%	2.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

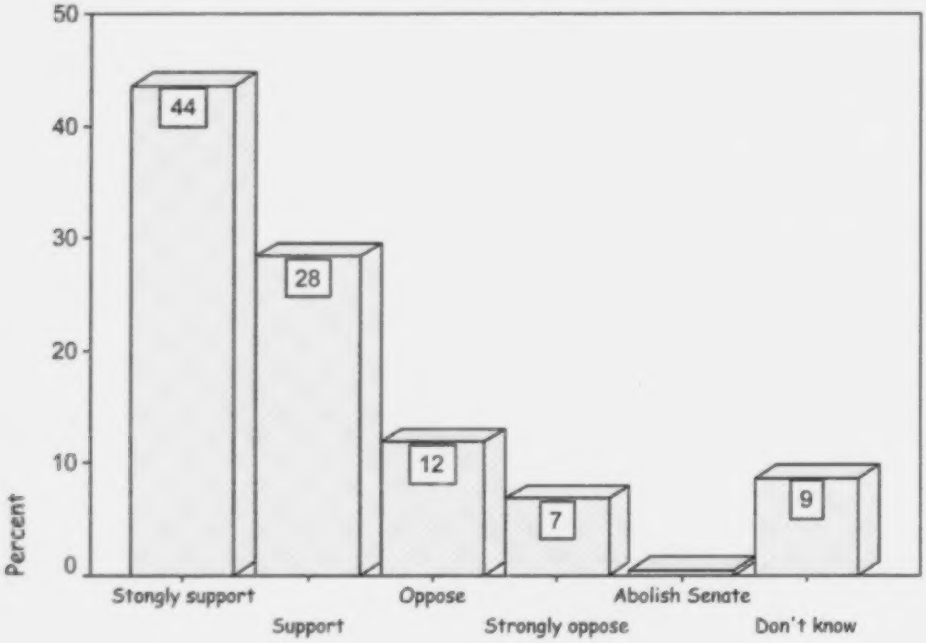
2.25 Senate Be More Effective If Each Province And Territory Were Represented Equally

Over four in ten (44%) 'strongly supported' the idea of having each province and territory represented equally in the Senate so that larger and smaller provinces would have the same number of representatives. Furthermore, 28% 'somewhat supported' this proposal. Nevertheless, 19% opposed this proposal including 7% who 'strongly opposed' it.

Those who more likely to not support this proposal (those who 'strongly' or 'somewhat' opposed it) included a higher than average (19%) proportion of the following segments:

- Those in St. John's (25%)
- Those currently seeking work (27%)
- Those with some college/university education (27%)
- Those aged 18 to 24 (28%)
- Those who felt that this province receives more than its fair share of money distributed by the Federal Government (26%)
- Those who 'somewhat' disagreed that the Federal Government ignores this province (25%)

SUPPORT FOR EQUAL NUMBER OF REPRESENTATIVES IN THE SENATE



#24 On another topic, the Senate of Canada has 105 members. Ontario and Quebec each have 24 senators while each of the remaining provinces has 10 or less including our province, which only has 6. Some people believe Canada's Senate would be more effective if each province and territory were represented equally, so that larger and smaller provinces would have the same number of representatives in the senate. Do you support or oppose this proposal?

Regionally, those in the Avalon (54%), West (52%), and Labrador (51%) regions were more likely to 'strongly support' the idea of equal representation in the Senate by all provinces and territories. Conversely, more of those in the St. John's region (25%) were opposed to this proposal as outlined in the following table.

SUPPORT FOR EQUAL NUMBER OF REPRESENTATIVES IN THE SENATE

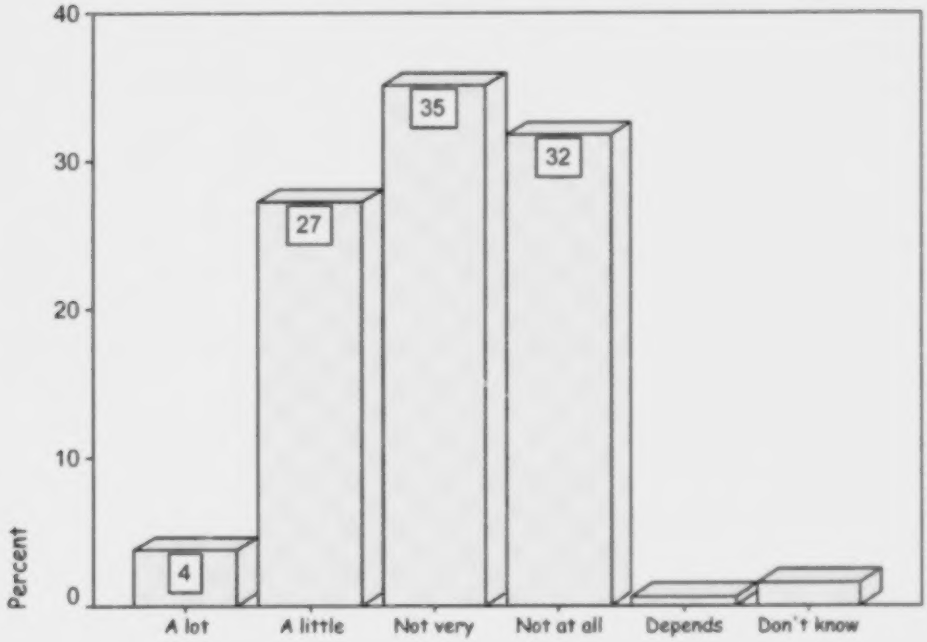
% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Stongly support	50.9%	51.7%	46.6%	54.0%	31.5%	43.7%
Support	24.5%	23.9%	29.5%	16.8%	35.3%	28.5%
Oppose	9.4%	9.1%	9.4%	7.3%	17.5%	11.8%
Strongly oppose	7.5%	8.5%	5.4%	6.6%	7.4%	6.9%
Abolish Senate			1.0%	.7%	.6%	.6%
Don't know	7.5%	6.8%	8.1%	14.6%	7.7%	8.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.26 Perception of Whether The Federal Government Is Taking Steps To Rebuild Our Fishery

Respondents were told, "With Confederation, the Federal Government assumed responsibility for the overall management of the fishery and that today the fishery has almost disappeared". They were then asked to what extent they felt the Federal Government is taking steps to rebuild the province's fishery. One in three (32%) Newfoundlanders and Labradorians felt that the Federal Government is not taking any steps at all to rebuild the province's fishery. Another 35% said 'not very' in terms of the extent of the steps the Federal Government is taking. Nevertheless, 4% said 'a lot' and 27% said 'a little' in terms of the extent of the steps the Federal Government is taking to rebuild the fishery.

EXTENT FEEL THAT FEDERAL GOVERNMENT IS TAKING STEPS TO REBUILD THE FISHERY



Q#25 With Confederation, the Federal Government assumed responsibility for the overall management of the fishery. Today the fishery has almost disappeared. To what extent do you feel the Federal Government is taking steps to rebuild our fishery?

Regionally, those in Labrador (52%) more positively viewed the effort the Federal Government is taking to rebuild the fishery than those in the other regions as outlined in the following table. Conversely, those in the Central (76%), Western (72%) and Avalon (67%) regions more negatively viewed the efforts of the Federal Government in this regard as outlined in the following table.

FEEL FEDERAL GOVERNMENT IS TAKING STEPS TO REBUILD FISHERY

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
A lot	9.3%	2.3%	2.0%	4.4%	5.0%	3.8%
A little	42.6%	23.4%	21.9%	27.2%	31.4%	27.2%
Not very	25.9%	34.9%	42.4%	28.7%	32.8%	35.1%
Not at all	18.5%	36.6%	33.3%	38.2%	27.5%	31.8%
Depends	1.9%	.6%		.7%	.9%	.6%
Don't know	1.9%	2.3%	.3%	.7%	2.4%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

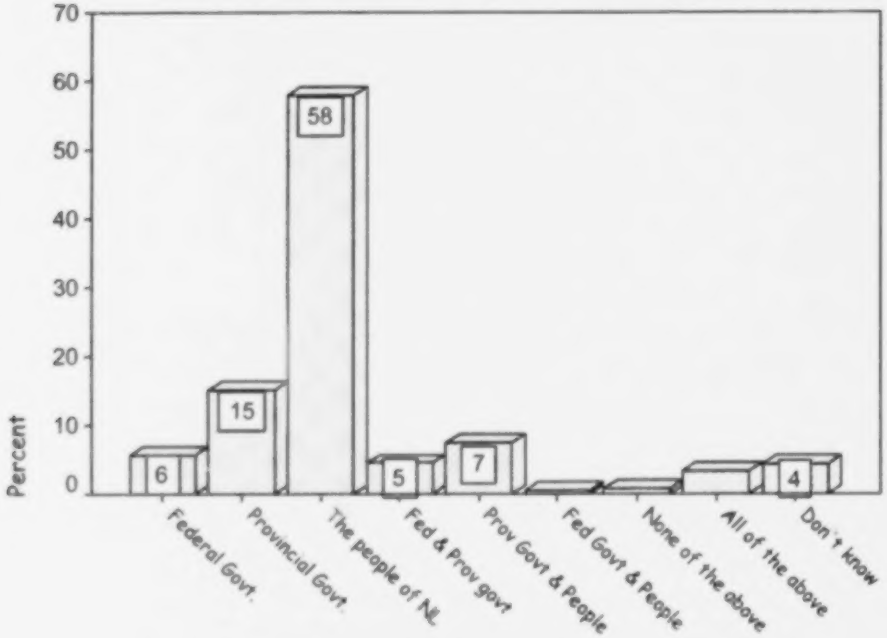
2.27 Who Is Most Responsible For Newfoundland And Labrador Achieving Prosperity In The Future

Respondents were asked who they believe is most responsible for Newfoundland and Labrador achieving prosperity in the future: The Federal Government, The Provincial Government, or The people of Newfoundland and Labrador. The majority (58%) said 'the people of Newfoundland and Labrador'. Nevertheless, 15% said 'the Provincial Government' while another 7% said 'both the Provincial Government and the people of Newfoundland and Labrador' and 6% felt that 'the Federal Government' is most responsible for the province achieving prosperity in the future.

Those who said 'the people of Newfoundland and Labrador' included a higher than average (58%) proportion of the following segments:

- Those in Labrador (64%)
- Those employed year-round full-time for pay (69%)
- Homemakers (65%)
- Those aged 18 to 24 (65%)
- Pink/grey-collar employees (62%)
- Those who 'somewhat' opposed governments taking a harder line and making tougher decisions (65%)
- Those who 'somewhat' disagreed that the Federal Government often ignores this province (63%)
- Those who 'somewhat' disagreed that Confederation has been a good thing for NL (66%)
- Those who said that this province should leave Canada (64%)

WHO IS MOST RESPONSIBLE FOR NL ACHIEVING PROSPERITY IN THE FUTURE



Q#26 Who do you think is most responsible for Newfoundland and Labrador achieving prosperity in the future?

Regionally, more of those in St. John's (19%) said 'the Provincial Government' than those in any of the other regions as outlined in the table that follows. However, more of those in Labrador (65%) than in any of the other regions said 'the people of Newfoundland and Labrador' are most responsible for the province achieving prosperity in the future.

WHO MOST RESPONSIBLE FOR NL ACHIEVING PROSPERITY IN FUTURE

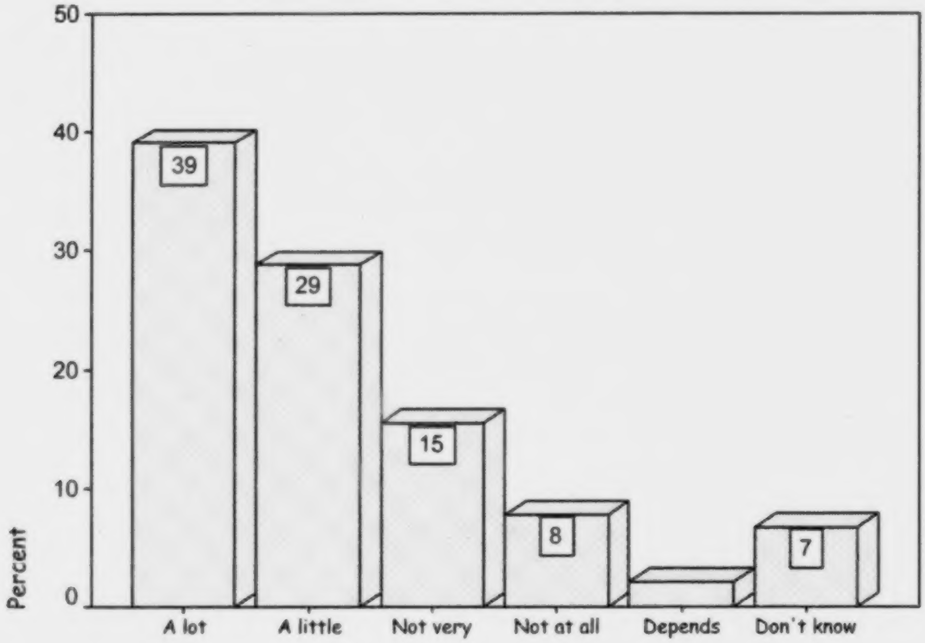
% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
The Federal Government	5.6%	6.9%	5.7%	8.1%	3.9%	5.6%
Our Provincial Government	14.8%	13.8%	11.8%	14.7%	19.0%	15.2%
The people of Newfoundland and Labrador	64.8%	58.0%	58.4%	59.6%	56.5%	58.2%
Both Federal and Provincial Government	3.7%	9.2%	2.4%	2.9%	5.1%	4.6%
Both Provincial Govt. and people of NL	5.6%	2.9%	9.5%	4.4%	9.2%	7.3%
Both Federal Govt and people of NL	1.9%	1.1%	1.0%			.6%
None of the above			1.4%	.7%	.9%	.8%
All of the above	1.9%	2.3%	2.7%	3.7%	4.5%	3.3%
Don't know	1.9%	5.7%	7.1%	5.9%	.9%	4.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100%

2.28 Extent Feel That The Aboriginal Peoples Within This Province Are Treated With Dignity And Respect

Almost four in ten (39%) felt that aboriginal peoples are treated with dignity and respect within this province. However, more felt that aboriginal peoples in this province are not completely treated with dignity and respect as evidenced by the 29% who said 'a little', the 15% who said 'not very' and the 8% who said 'not at all' in terms of the extent of dignity and respect given to aboriginal peoples.

FEEL THAT ABORIGINAL PEOPLE ARE TREATED WITH DIGNITY AND RESPECT



Q#27 All things considered, to what extent do you feel that the aboriginal peoples within this province are treated with dignity and respect?

Regionally, those in the Central (51%) were more likely than those in any of the other regions to feel that aboriginal peoples within this province are treated with dignity and respect. More of those in the Labrador (27%), Western (27%) and St. John's (29%) regions felt that aboriginal peoples within this province are not treated with dignity and respect as outlined in the table that follows.

ABORIGINAL PEOPLE TREATED WITH DIGNITY AND RESPECT

% within REGION

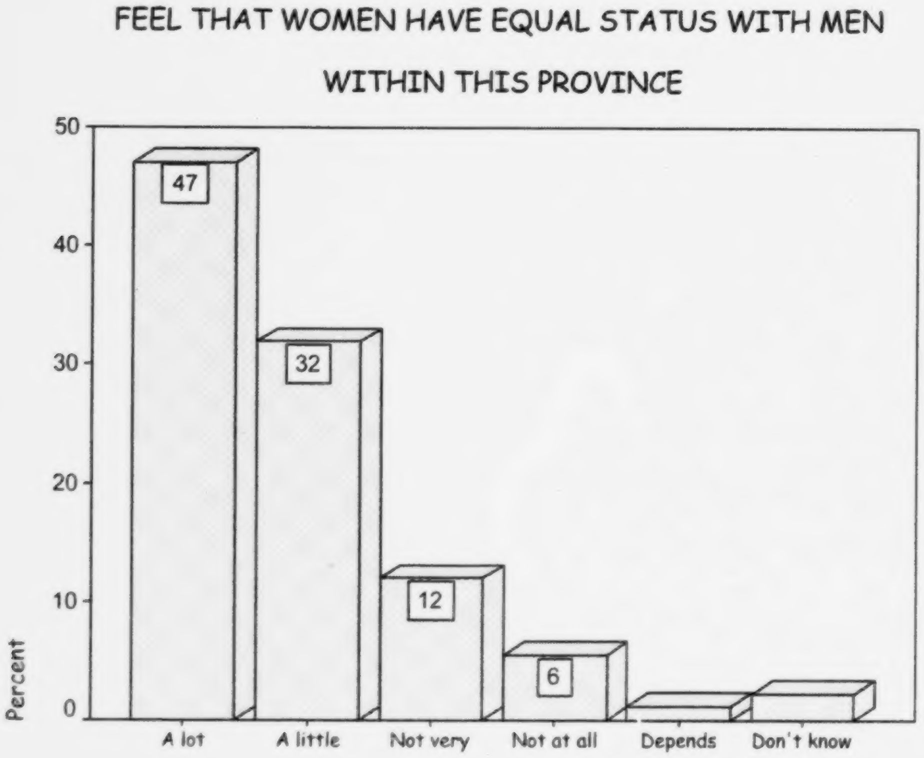
		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	A lot	40.0%	36.6%	50.8%	36.8%	30.9%	39.1%
	A little	29.1%	29.1%	26.3%	30.9%	30.0%	28.8%
	Not very	21.8%	16.6%	12.5%	13.2%	17.5%	15.5%
	Not at all	5.5%	9.7%	2.7%	6.6%	11.9%	7.7%
	Depends	1.8%	4.0%	2.0%	4.4%	.6%	2.2%
	Don't know	1.8%	4.0%	5.7%	8.1%	9.2%	6.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.29 Extent Feel That Women Have Equal Status With Men Within This Province

Approximately half (47%) of all respondents felt that women have equal status with men within this province. However, more felt that women do not fully have equal status with men within this province as evidenced by the 32% who said 'a little', the 12% who said 'not very' and the 6% who said 'not at all' in terms of the extent of equal status between men and women in the province.

Those who felt most strongly that women do not have equal status with men (those who said 'not very' or 'not at all') within this province included a higher than average (18%) proportion of the following segments:

- Females (23%)
- Those in the Western region (23%)
- Those currently seeking work (29%)
- Those aged 65 or more (23%)



Q#28 All things considered, to what extent do you feel that women have equal status with men within this province?

Regionally, more of those in the Central (55%) region than in any of the other regions felt that women have equal status with men within this province. Conversely, more of those in the

Western region (23%) felt that women do not have equal status with men within this province as outlined in the table that follows.

WOMEN HAVE EQUAL STATUS WITH MEN WITHIN NL

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
A lot	42.6%	41.1%	54.9%	49.3%	43.0%	47.0%
A little	38.9%	29.7%	30.0%	30.1%	34.4%	31.9%
Not very	11.1%	18.3%	11.1%	13.2%	9.2%	12.0%
Not at all	3.7%	4.6%	2.7%	5.1%	8.9%	5.5%
Depends	1.9%	1.7%		1.5%	2.1%	1.3%
Don't know	1.9%	4.6%	1.3%	.7%	2.4%	2.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

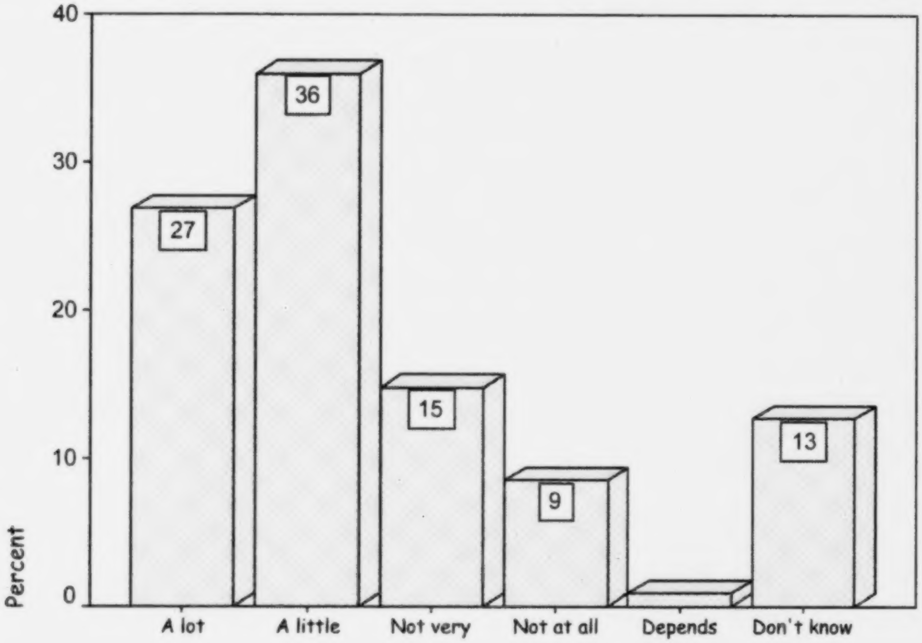
2.30 Extent Feel That Labrador Is Treated Fairly By The Provincial Government

Just over one-quarter (27%) felt that Labrador is treated fairly by the Provincial Government. However, more felt that Labrador is not completely treated fairly as evidenced by the 36% who said 'a little', the 15% who said 'not very' and the 9% who said 'not at all' in terms of the extent of fairness to Labrador by the Provincial Government.

Those who felt most strongly that Labrador is not treated fairly by the Provincial Government (those who said 'not very' or 'not at all') included a higher than average (24%) proportion of the following segments:

- Those living in Labrador (56%)
- Those currently seeking work (29%)
- Those with technical/vocational school education (31%)
- Those with household incomes of $70K or more (33%)

FEEL THAT LABRADOR IS TREATED FAIRLY BY THE PROVINCIAL GOVERNMENT



Q#29 All things considered, to what extent do you feel that Labrador is treated fairly by the Provincial Government?

Regionally, more of those in the Central (69%) region felt that Labrador is treated fairly by the Provincial Government. However, those in Labrador (57%) were the most likely to say that Labrador is not treated fairly by the Provincial Government.

LABRADOR TREATED FAIRLY BY THE PROVINCIAL GOVERNMENT

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
A lot	8.9%	29.3%	34.6%	23.0%	23.4%	26.9%
A little	32.1%	37.9%	34.6%	40.7%	35.2%	36.1%
Not very	33.9%	13.8%	11.9%	18.5%	13.3%	14.8%
Not at all	23.2%	6.9%	6.8%	4.4%	10.4%	8.6%
Depends		1.7%	.3%	2.2%	.6%	.9%
Don't know	1.8%	10.3%	11.9%	11.1%	17.2%	12.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.31 Support Governments Taking A Harder Line And Making Tough Decisions

Respondents were asked to what extent they would support governments taking a harder line and making tough decisions that are for the greater good of the whole province even if it means some sacrifices for them and their community. Almost half (49%) of all respondents indicated that they 'strongly support' this idea. An additional 34% said they 'somewhat support' this idea. However, 10% opposed the idea including 5% who were 'strongly opposed' to it.

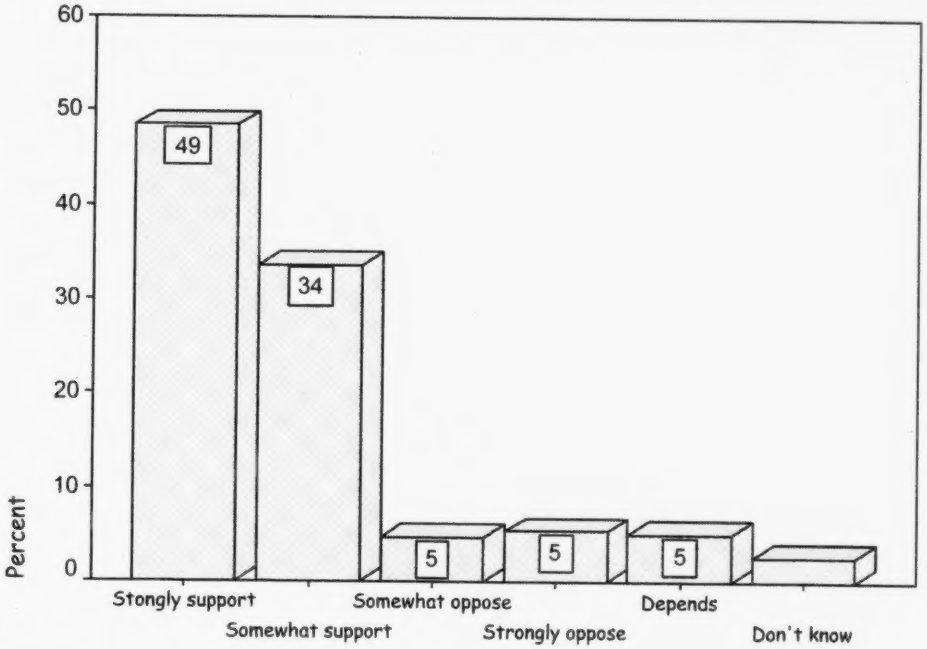
Those who 'strongly supported' the idea of governments taking a harder line included a higher than average (49%) proportion of the following segments:

- Those in St. John's (56%)
- Retirees (57%)
- College/university graduates (54%)
- Those with household incomes of $70K or more (58%)
- Those who said that the Provincial Government is most responsible for this province achieving prosperity in the future (60%)

Those who 'strongly' or 'somewhat' opposed the idea of governments taking a harder line included a higher than average (10%) proportion of the following segments:

- Those living in Labrador (22%)
- Those currently seeking work (23%)

SUPPORT GOVERNMENTS TAKING A HARDER LINE AND MAKING TOUGHER DECISIONS EVEN IF IT MEANS SACRIFICES



Q#30 To what extent would you support governments taking a harder line and making tough decisions that are for the greater good of the whole province even if it means some sacrifices for you and your community?

Regionally, those in the Central (53%) and St. John's (56%) regions were more likely to 'strongly support' the idea of governments taking a harder line and making tough decisions than those in the other regions. Those in Labrador (22%) were the most likely to oppose this idea as outlined in the table that follows.

SUPPORT GOVTS TAKING A HARDER LINE/MAKING TOUGHER DECISIONS

% within REGION

		REGION					
		Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
	Stongly support	24.1%	42.9%	53.2%	38.2%	55.5%	48.5%
	Somewhat support	44.4%	36.0%	33.3%	34.6%	30.3%	33.5%
	Somewhat oppose	9.3%	4.0%	4.4%	2.9%	5.3%	4.7%
	Strongly oppose	13.0%	8.0%	4.4%	8.8%	2.4%	5.4%
	Depends	7.4%	6.3%	3.7%	9.6%	3.6%	5.1%
	Don't know	1.9%	2.9%	1.0%	5.9%	3.0%	2.7%
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.32 People in Rural Communities Move Elsewhere To Find Work Or Should Governments Provide Assistance So That They Can Stay In Their Communities

Respondents were asked for their opinion on the following: "Many communities in rural areas depend on seasonal jobs. If people in these communities cannot find enough work do you think they should move elsewhere in the province or out of the province where they can find such work, or should governments provide assistance so that they can stay in their communities?"

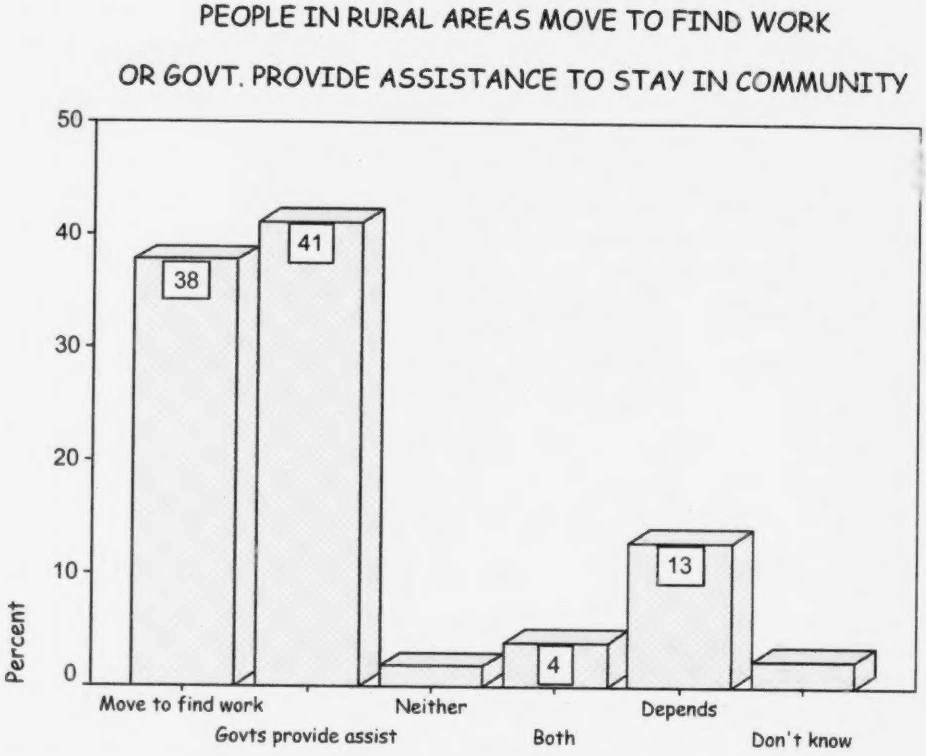
Respondents were divided on their opinion. Approximately four in ten (38%) felt that people in these communities should move elsewhere in the province or out of the province where they can find such work. However, four in ten (41%) also believed that governments should provide assistance so that they can stay in their communities. Another 4% said 'both' and 13% said 'it depends' while 2% said 'neither'.

Those who felt that people in these communities should move elsewhere in the province or out of the province where they can find such work included a higher than average (38%) proportion of the following segments:

- Those living in St. John's (50%)
- Those employed year-round full-time for pay (50%)
- College/university graduates (48%)
- Those in pink/grey-collar occupations (50%)
- Those in white-collar occupations (50%)
- Those with household incomes of $40K to just under $70K (51%)
- Those with household incomes of $70K or more (54%)

Those who believed that governments should provide assistance so that people can stay in their communities included a higher than average (41%) proportion of the following segments:

- Those in the Western region (48%)
- Those employed year-round part-time for pay (50%)
- Those currently seeking work (57%)
- Homemakers (51%)
- Students (50%)
- Those with less than high school education (57%)
- Those with household incomes of $20K or less (59%)
- Those with household incomes of $20K to just under $40K (49%)
- Those who felt that the Federal Government is most responsible for this province achieving prosperity in the future (48%)
- Those who 'strongly' oppose governments taking a harder line and making tougher decisions (53%)
- Those who 'somewhat' oppose governments taking a harder line and making tougher decisions (59%)



Q#31 Many communities in rural areas depend on seasonal jobs. If people in these communities cannot find enough work do you think they should move elsewhere in the province or out of the province where they can find such work, or should governments provide assistance so that they can stay in their communities?

Regionally, those in St. John's (50%) were more likely than those in any of the other regions to feel that governments should provide assistance so that these people can stay in their communities. Those in the Western (48%) and Central (45%) regions were more likely than others to feel that governments should provide assistance so that people can stay in their communities. As outlined in the following table, more respondents in the Avalon (18%) region said that it would 'depend'.

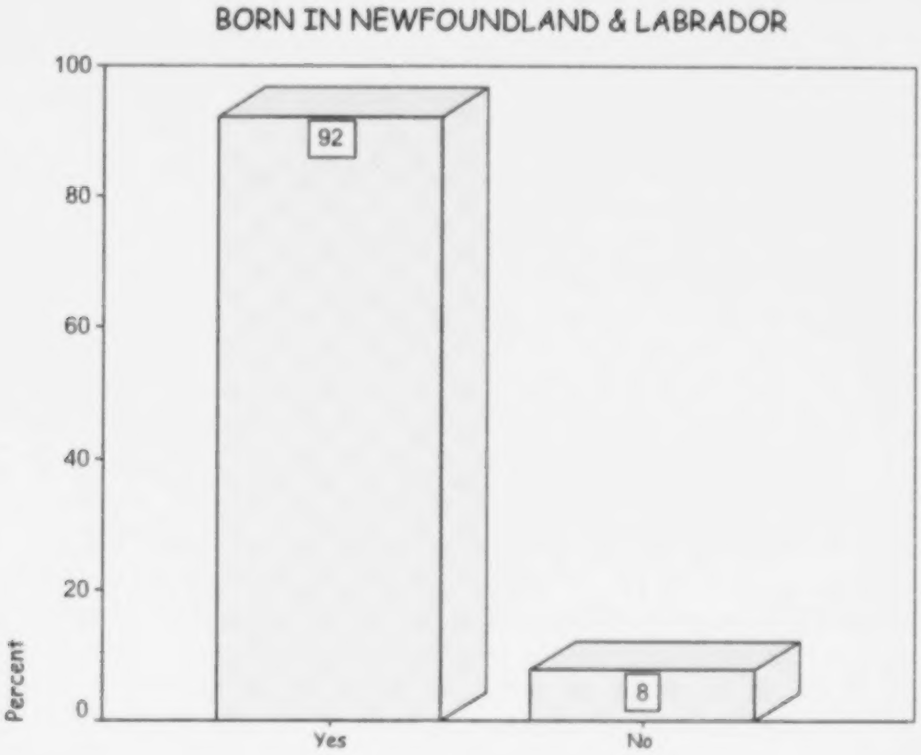
SHOULD PEOPLE IN RURAL AREAS MOVE FOR WORK OR SHOULD GOVT. PROVIDE ASSISTANCE

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
People should move to find work	40.7%	28.4%	33.1%	29.4%	50.0%	37.9%
Governments should provide assistance	42.6%	47.7%	45.3%	40.4%	34.3%	41.2%
Neither	1.9%	3.4%	1.4%	1.5%	1.5%	1.8%
Both	5.6%	5.1%	3.7%	7.4%	2.1%	4.0%
Depends	9.3%	13.1%	14.2%	18.4%	9.8%	12.8%
Don't know		2.3%	2.4%	2.9%	2.4%	2.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

2.33 Born In Newfoundland And Labrador

Just over nine in ten (92%) respondents were born in the province. The incidence of this was highest in the Western (96%) and Avalon (96%) regions and lowest in Labrador (85%) and St. John's (88%).



Q#32 Were you born in Newfoundland and Labrador?

BORN IN NL

% within REGION

	REGION					
	Labrador	West/PAB/St. Anthony	Central/Eastern/ Sth/Burin	Avalon	St. John's CMA	Total
Yes	85.2%	96.0%	93.9%	96.3%	88.1%	92.2%
No	14.8%	4.0%	6.1%	3.7%	11.9%	7.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

3.0 Research Objectives and Methodology

3.1 Overall Objectives

This research was commissioned by the Royal Commission on Renewing and Strengthening our Place in Canada in April 2003 in order to investigate the representativeness of the attitudes and opinions expressed to the Royal Commission by residents during its public consultations and other information gathering processes.

3.2 Research Methodology

a) Sampling

A questionnaire was administered by telephone by experienced interviewers employed by Ryan Research & Communications, a local marketing research company. The universe was identified as all residents of the province aged 18 years or more.

The sampling procedure used for this study is known as stratified random sampling, whereby quotas are set by 'strata' or geographic areas based on their proportion to the total population. The strata for this study consisted of 5 geographic areas. Subsequently, proportionate quotas were set by region relative to the population in each region.

A quota of 1000 interviews was set from a random sample of residents of the province 18 years of age or older. Quotas of 200 were set for each of the five key areas outlined below so that any variations in opinion on a regional basis can be identified:

1) West/Northern Peninsula/Port Aux Basques
2) Avalon Peninsula (excluding St. John's CMA)
3) Labrador
4) Central/South/Burin/East
5) St. John's CMA

A total of 1001 interviews were completed providing a statistical margin of error ± 3.10 overall and ± 6.93% at the 95% level of confidence (19 times out of 20) for each of the five areas. The overall results were weighted to reflect the actual populations of the five regions.

b) Interview Timing and Results

Interviewing was conducted from April 10th to 24th 2003. Each interview was approximately 9 to 18 minutes in duration. A total of 1000 interviews were completed.

The table below outlines the total sample generated in relation to the number of fully-completed questionnaires. The completion rate was comparable to other studies conducted by Ryan Research & Communications in this market.

TOTAL SAMPLE VS. COMPLETIONS

	HOUSEHOLDS	%
➢ Total sample of telephone numbers generated	5488	100
➢ No answers...including answering machines, busy numbers, and consistent no-answers during callbacks	2813	51%
➢ Screened out...including those with language barriers, hard of hearing, and very elderly individuals (at interviewer discretion)	190	4%
➢ Refusals/not interested	1021	19%
➢ Bad numbers, including businesses and disconnected/not in service	463	8%
➢ Fully-completed interviews based on telephone numbers called	1001/5488	18%
➢ Fully-completed interviews based on contacts made (refusals, callbacks, screened out, and completes)	1001/2900	35%

c) Limitations

First, telephone interviewing is somewhat limited in the number and types of subject areas that can be investigated. The complexity of consumer decision-making and their difficulty in recalling and verbalizing motivations, attitudes and beliefs, points to these limitations. However, the specific research objectives and questionnaire design used in this study were developed with a sensitivity to the unique characteristics of the telephone interview method of data collection...in order to minimize the impact of these methodological shortcomings. In addition, interviewers observed that respondents were generally pleasant, interested, and very cooperative.

A second limitation of this study is the length of the questionnaire employed. However, conversational style and engaging flow of topics...combined with skilled and experienced interviewers...appears to have overcome the inherent dangers of respondent fatigue and irritation.

Royal Commission on Renewing
and Strengthening Our Place in Canada

Newfoundland and Labrador's Place in Canada

— POLLARA

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

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Contents

Introduction 429
Key Findings and Conclusions 429
  Canadian Values 430
  Treatment by Federal Government 431
  Canadians' Impressions of Newfoundland and Labrador 431
Methodology 434
  The Sample 434
  The Questionnaire 435
  Interviewing 435
  Multiple Response Open-Ended Questions 435
  Response Rate 436
  Notes On Interpretation 436
  Respondent Profile 437
Canadian Values 439
  Things Most Valued About Being Canadian 439
  Importance of Principles to Idea of Canada 441
Treatment by Federal Government 445
  Perceived Treatment of Small Provinces/Territories by Federal Government 445
  Perceived Treatment of Own Province/Territory by Federal Government 447
Canadians' Impressions of Newfoundland and Labrador 451
  Federal-Provincial Relations 451
  Contributions to Canada 466
  Top-of-Mind Impressions 477
  Attitudes Towards People of Newfoundland and Labrador 481
Sources of Information About Newfoundland and Labrador 495

Appendix A: Regression Analysis Tables of Results 498

Introduction

POLLARA is pleased to present the *Royal Commission on Renewing and Strengthening Our Place in Canada* (hereafter referred to as "the Royal Commission") with the following report of findings from a telephone survey with Canadians on topics relevant to the Royal Commission's mandate.

The purpose of the survey was to explore attitudes and perceptions among Canadians living outside of Newfoundland and Labrador on the following issues:

- The image of Newfoundland and Labrador in Canada;
- Perceptions of contributions of Newfoundland and Labrador to Canada;
- Perceptions of contributions of Canada to Newfoundland and Labrador;
- Values of Federalism;
- Representation in the Federation; and,
- The economic and Social Status of Rural and Urban Communities.

Key Findings and Conclusions

Findings from a survey of Canadians living outside of Newfoundland and Labrador provide the Royal Commission with insight into the way other Canadians view the province and its people, as well as the values and issues that are important to Canadians. An appreciation of both will be important to the Royal Commission as it prepares recommendations to advance the prosperity and self-reliance of Newfoundland and Labrador into the future. While a discussion of the detailed findings follows in the body of this report, there are two important themes that emerge from the study.

The first theme is that while Newfoundland and Labrador may be well-known to Canadians, it is not known-well. General perceptions of the province and its people suggest a continuing familiarity with outdated stereotypes and past realities. The pursuit of more detail from Canadians reveals a widespread lack of familiarity with the province, particularly in areas pertaining to its various contributions to the Canadian federation and its current economic situation.

Lack of familiarity with Newfoundland and Labrador is strong among residents of Canada's western provinces, including British Columbia and Alberta. Familiarity is highest among residents of the Maritime provinces. This pattern may be attributed, in part, to proximity and to a sharing of similar issues between provinces in the same region. An exception, however, occurs in Quebec, where residents demonstrate the lowest level of familiarity and opinion in the country. This finding may, in part, be the result of cultural differences.

Canadians' lack of familiarity with Newfoundland and Labrador is particularly striking on the economic front. The diversification and recent strong growth of the Newfoundland and Labrador economy have gone largely unnoticed by other Canadians. The province's economy is viewed by many as rather one dimensional, based on one natural resource in particular;

the fishery. Reliance on these antiquated notions play a role in hindering the acceptance and understanding of the new economic realities and challenges facing Newfoundland and Labrador. These outdated perceptions - whether based on old realities or not - have been built up over time. Their replacement with new realities will likely require a period of sustained and intense communications efforts by the province.

While, in most cases, Canadians lack specific knowledge about Newfoundland and Labrador, there already exists a strong foundation of respect for the province and empathy for its place within Canada. This is the second general theme emerging from the study. The study reveals a positive attitude towards Newfoundland and Labrador as Canadians feel that it is a vital part of the country, and that the federal government does not give it the respect it deserves or the financial support to which it is entitled. Canadians support assistance provided to the province (and many other provinces) through federal government transfers and federal transfers and programs available to all Canadians. This attitude is exhibited by residents of most provinces and territories, despite a high proportion of each who are unable to offer specific attitudes and perceptions about the province and its people.

While awareness of the realities of Newfoundland and Labrador may not be widespread, there are provinces and regions which express shared frustrations, sympathies and experiences that may mirror some of the sentiments felt in Newfoundland and Labrador. Canadians largely recognize that smaller provinces are often overlooked in the interest of larger provinces, and that smaller provinces do not receive the respect they deserve from the federal government. This perception holds particular resonance among residents of smaller provinces and communities, located primarily in the Prairie and Maritime regions, where residents express similar sympathies and frustrations to those experienced in Newfoundland and Labrador. This common ground between smaller provinces may suggest an environment of opportunity in which to establish dialogues and linkages between provinces that seek greater recognition within the Canadian Confederation.

There is widespread agreement among Canadians that Canada is a better place for having Newfoundland and Labrador in Confederation. Those who know Newfoundland and Labrador well - having visited the province or having friends or family living there - hold the most favourable view of the province. The two themes, then, intersect to highlight the importance of building a better understanding among Canadians about Newfoundland and Labrador, its challenges and opportunities, and the important contributions it makes to Canada.

To follow are key findings from the research.

Canadian Values

- When asked to state in their own words what they value most about being Canadian, over half of Canadians cite *freedom/rights* (53%).
- Of five principles assessed on a seven-point scale where one is *not at all important* and 10 is *very important*, *universal health care* (6.2) and *affordable university/college tuition* (6.0) are most important to Canadians' view of Canada, followed by the *distribution of federal money to the provinces/territories* (5.5), *multiculturalism* (5.0) and a *strong armed-forces* (4.8).

Treatment by Federal Government

- Seven-in-ten Canadians (72%) agree that *smaller provinces and territories are often ignored by the federal government in the interest of larger provinces*, including 41% who do so *strongly*.
    - Agreement is highest in smaller provinces including Manitoba (90%), Nova Scotia (86%), Saskatchewan (84%), and New Brunswick (84%).
- Canada's smaller provinces/territories are most likely to agree that *their province/territory is often ignored by the federal government in the interest of other provinces and territories*.
    - The exception to this is PEI, where perceptions more closely resemble those of larger provinces.
    - Ontario is the only province/territory where a majority of residents disagree that *their province/territory is ignored* (68%).

Canadians' Impressions of Newfoundland and Labrador

Federal-Provincial Relations

- Two-thirds of Canadians feel their province is treated with respect by the federal government (67%). Only half of this amount believes that Ottawa treats Newfoundland and Labrador respectfully (34%).
- Two-fifths of Canadians feel their province or territory receives *about the right amount* (42%) and *less than its fair share* (38%) in federal distribution payments. Only a small proportion concedes to getting *more than their fair share* (8%). Canadians are slightly more likely to believe that Newfoundland and Labrador gets *less than its fair share* in federal monies (46%).
    - Ontario is the only province/territory where over three-quarters believe their province receives *more than its fair share* (17%) and *about the right amount* (64%). Those most likely to feel their province is hard done by include residents of Saskatchewan (76% *less than fair share*), Nova Scotia (74%), and British Columbia (69%).
- Canadians are equally supportive of federal assistance for residents in rural Canada and Newfoundland and Labrador in need of year-round employment. However, support is more widespread for assistance through *education and job training* than *employment insurance*.
- Support for equal provincial/territorial representation in the Senate of Canada nearly doubles opposition (60% vs. 36%). *Strong* support stands at 33%.

- Support for the Senate proposal is highest in western Canada (BC: 83%; Alberta: 81%; and Saskatchewan: 81%) and lowest in PEI (55%), Quebec (51%), and Ontario (48%).

Contributions to Canada

- Western Canadians perceive their province's greatest contribution to Canada to be resource-related: residents of Saskatchewan and Manitoba commonly identify *agriculture* (55% and 35% respectively); Albertans mention *oil/natural gas* (45%); British Columbians cite *forestry/logging* (21%). Central Canadians are more likely to perceive their province's contribution to be *economy/ industry/money/wealth/taxes* (Ontario: 46%; Quebec: 18%).
- When asked to identify in their own words Newfoundland and Labrador' greatest contribution to Canada, one-third of Canadians are unable to think of anything (34%). Most often Canadians cite *fisheries/marine industry/sea ports* (26%).
- Using a seven-point scale where one is *not at all significant* and ten is *very significant*, Canadians rate Newfoundland and Labrador's most significant contributions to Canada to be *natural resources* (5.9) and as an *attractive tourist destination* (5.5), followed by *music arts and culture* (4.9), *hydro electricity* (4.8), *skilled labour* (4.2) and *research and development* (4.0).
- A majority of residents in Canada's central (Quebec: 69%; Ontario: 65%) and western-most provinces (Alberta: 60%; BC: 51%) feel that their provinces contribute more to Canada than does Newfoundland and Labrador, while Prairie and Atlantic residents offer a more modest assessment of their province's contribution.

Top-of-Mind Impressions

- Canadians' most common top-of-mind impression of Newfoundland and Labrador is *fish/fisheries/industry doing poorly* (26%), followed by *nice people* (16%) and *poverty* (14%). Seventeen percent were unable to think of a response.
- The most commonly cited stereotype classifies people from Newfoundland and Labrador as *uneducated/stupid/unskilled/ unsophisticated* (21%). Other stereotypes cast everyone from Newfoundland and Labrador as *fishers* (9%) claim that they are *unemployed/poor/lazy/a burden to Canada* (6%), describe people from Newfoundland and Labrador as *nice/warm/kind* (5%) and note a good sense of humour (3%).
- People who mention the following stereotypes tend to feel they hold at least some truth: that people from Newfoundland and Labrador tend to be *friendly/nice/warm/kind* (94% a lot/little bit of truth), that *they are all fishers* (75%), and that they have *accents* (67%).

Attitudes Towards People of Newfoundland and Labrador

- Canadians tend to view Newfoundland and Labrador as culturally distinct from English Canada (72%), including 21% who *strongly* feel this way.
- When considering nine statements about Newfoundland and Labrador, Canadians' agreement is highest with statements about the importance of the province to Canada (89% agree) and kindness of its people (89%). Canadians also recognize the province's loss of human capital (84%), and support the concept of distribution payments for provinces in need (85%). However, agreement and overall familiarity declines when considering Newfoundland and Labrador's economic situation.
- A plurality of Canadians feels that the *federal government* is most responsible for Newfoundland and Labrador's economic problems (34%). Less often, Canadians place responsibility with the *government of Newfoundland and Labrador* (20%) and *the province's people* (12%).
- Canadians overwhelmingly feel that Canada is *better* with Newfoundland and Labrador as a member of Confederation (88%). Only 2% feel Canada is *worse* for the inclusion of Newfoundland and Labrador, and 10% don't take a position.
    - Quebec residents are least likely to feel that Canada is a *better* place with Newfoundland and Labrador as a member of Confederation (71%).

These results are explored in greater detail following a description of the methodology employed in conducting this survey.

Methodology

The following section outlines the methodology followed by POLLARA in conducting this study. These stringent guidelines ensure accurate results that reflect the views of Canadians living outside the province of Newfoundland and Labrador.

The Sample

Interviews were conducted with 1,275 adult Canadians living outside the province of Newfoundland and Labrador, generating an overall margin of error of ±2.8%, nineteen times out of twenty. At least 125 interviews were conducted in each province and in the Territories in order to generate reliable margins of error. Interviews were conducted proportionally within each province and the Territories. The interviews were weighted by province/territory to a representative 326 cases. The sample frame and corresponding margins of error follow.

Table A - Sample Distribution by Province/the Territories

	Unweighted Number of Interviews	Weighted Number of Interviews	Unweighted Margin of Error (%)
British Columbia	125	43	±8.9
Alberta	130	33	±8.8
Saskatchewan	132	11	±8.7
Manitoba	126	13	±8.9
Ontario	135	125	±8.6
Quebec	125	78	±8.9
PEI	125	2	±8.9
Nova Scotia	126	10	±8.9
New Brunswick	125	8	±8.9
Territories	126	3	±8.9
TOTAL	**1,275**	**326**	**±2.8**

The following table outlines the regional sample frame and corresponding margins of error.

Table B - Sample Distribution

	Unweighted Number of Interviews	Weighted Number of Interviews	Unweighted Margin of Error (%)
British Columbia/Territories	251	46	±6.3
Prairies	388	57	±5.1
Ontario	135	125	±8.6
Quebec	125	78	±8.9
Atlantic	376	20	±5.2
TOTAL	**1,275**	**326**	**±2.8**

The Questionnaire

The survey instrument was designed by POLLARA, in close consultation with the Royal Commission.

POLLARA takes full responsibility for the professionalism and fairness of the research instruments we use. POLLARA meets or exceeds the professional ethical requirements of the Canadian Association of Market Research Organizations (CAMRO).

Following a pre-test of 50 interviews, small changes were made to the questionnaire.

Interviewing

Interviews for this study were conducted from POLLARA's state of the art tele-research centres in Vancouver, Toronto, and Bathurst, New Brunswick. All interviews were conducted between January 29th and February 5th, 2003. Fifty pre-test interviews were conducted on January 29th.

POLLARA uses the latest in Computer-Assisted Telephone Interviewing (CATI) technology to eliminate data entry errors and ensure quick turnaround on research studies.

Senior POLLARA supervisors monitored approximately 10% of the interviews. All interviews are supervised 100% of the time to ensure data quality and the swift resolution of any problems. Interviewers are careful to respect the privacy and schedules of respondents. Refusals are graciously accepted, and interviews are rescheduled with willing respondents as many times as necessary.

Multiple Response Open-Ended Questions

Up to three responses were accepted for some of the open-ended questions. In the Interview Schedule responses to these questions are shown in two ways: *Total mentions* represent an aggregate of all three responses offered, whereas *first mentions* describes only the first response or impression offered by each respondent. *Total mentions* will typically add to more than 100%.

Response Rate

This survey garnered a response rate of 22%.

Notes On Interpretation

Respondents

Respondents living outside of Newfoundland and Labrador who have lived in the province for six months or longer were disqualified from participating in the survey. Fifty-one people were disqualified on this basis, including nine currently living in Nova Scotia, nine in PEI, four in New Brunswick, three in Quebec, two in Ontario, two in Manitoba, three in Saskatchewan, four in Alberta, four in BC, and 11 in the Territories.

Canadians

This report often makes reference to the views of "Canadians". Readers should note that this term denotes those Canadians outside the province of Newfoundland and Labrador.

Size of Community

It is important to make note of the relationship that exists between provinces/the Territories and size of community of residence. Generally, in smaller provinces a greater proportion of Canadians reside in small towns and rural areas, relative to larger provinces (in which a large proportion resides in cities and suburban areas).

The following table illustrates this trend, which holds true in all provinces/the Territories with the exception of Manitoba. Readers should keep this in mind when looking at results segmented by size of community.

Table C: Province/The Territories, by Size of Community

	Large City/ Smaller City/ Suburban Area	Small Town/ Rural Area
	%	%
Nova Scotia	26	74
New Brunswick	0	50
Prince Edward Island	42	58
Quebec	69	31
Ontario	67	32
Manitoba	72	28
Saskatchewan	55	42
Alberta	67	32
British Columbia	70	29
Territories	43	57

Respondent Profile

The following section details the demographic characteristics of the survey population as it compares to Canadians at large, outside Newfoundland and Labrador. To develop the profile of Canadians at large, data was merged from the last four quarters of *Perspectives Canada*, POLLARA's national syndicated survey of Canadians, for a total sample of 6,392 people. A sample of this size is accurate to ±1.3%, nineteen times out of twenty.

The following tables compare the distribution of Royal Commission respondents with a large sample of Canada's general population across a number of demographic metrics. As illustrated, the survey population closely mirrors that of Canadians overall.

Table D - Demographic Profile of Royal Commission Survey Respondents vs. Canadians At Large: Age

	Royal Commission Survey Respondents %	Canadians At Large %
18-24	8	9
25-34	15	16
35-44	23	22
45-54	23	21
55-64	16	16
65 and Over	13	16
Average Age (18+)	46.2	46.7

Table E - Demographic Profile of Royal Commission Survey Respondents vs. Canadians At Large: Education Attained

	Royal Commission Survey Respondents %	Canadians At Large %
Elementary	6	9
High School	35	33
Community College	24	23
Some University	9	11
Completed University	16	20
Graduate Degree	10	5

Table F - Demographic Profile of Royal Commission Survey Respondents vs. Canadians At Large: Annual Household Income

	Royal Commission Survey Respondents %	Canadians At Large %
Less than $25,000	16	16
$25,000 to Less Than $35,000	13	14
$35,000 to Less Than $45,000	14	14
$45,000 to Less Than $55,000	11	12
$55,000 to Less Than $65,000	9	9
$65,000 to Less Than $75,000	8	7
$75,000 to Less Than $100,000	8	10
More Than $100,000	9	9

Table G - Demographic Profile of Royal Commission Survey Respondents vs. Canadians At Large: Size of Community

	Royal Commission Survey Respondents	Canadians At Large
	%	%
Large City of Over Half A Million	30	27
A Smaller City	27	27
A Suburban Area	9	9
A Small Town	19	19
A Rural Area	15	17

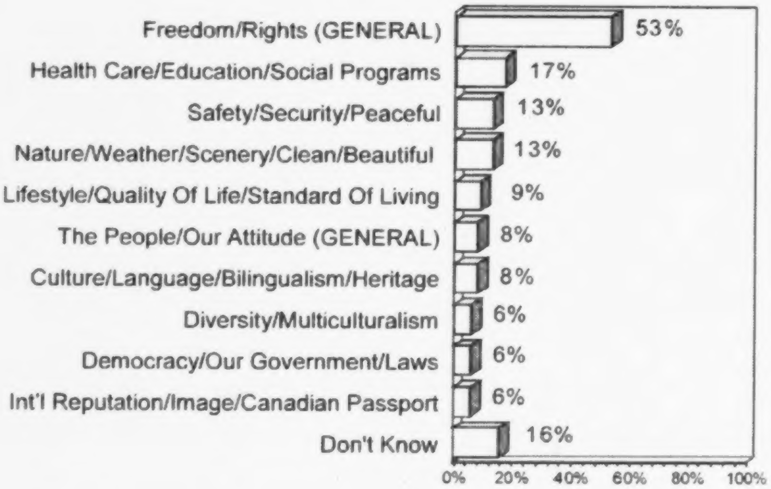
Canadian Values

Things Most Valued About Being Canadian

On a top-of-mind basis, Canadians overwhelmingly identify a sense of *freedom* and their *rights* among the things that they value most about being Canadian (53%). Less often, respondents cite *health care/education/social programs* (17%), *safety/security/peace* (13%), and *nature/weather/scenery/ clean/beautiful* (13%). Less than one-in-ten respondents mention Canada's *lifestyle/quality of life/standard of living* (9%), *the people/our attitude* (8%), and Canada's *culture/language/bilingualism/heritage* (8%).

Sixteen percent of Canadians *don't know* what they value most about being Canadian.

Figure 1 - Most Valued Things About Being Canadian



Question: What are the things you value most about being Canadian? (OPEN-END) (ACCEPT UP TO 3 RESPONSES)

People residing in rural areas are more likely than those in urban areas to cite *freedom/ rights* among the things they value most about being Canadian (66% vs. 51% respectively).

Table 1 - Most Valued Things About Being Canadian, by Urban/Rural

	Freedom/ Rights	Health Care/ Education/ Social Programs	Safety/ Security Peace	Nature/Weather Scenery Clean/ Beautiful	Don't Know
	%	%	%	%	%
Rural	66	13	18	10	11
Urban	51	18	12	14	17

Question: What are the things you value most about being Canadian?
(OPEN-END) (ACCEPT UP TO 3 RESPONSES)

Quebec residents are least able to identify what they value about being Canadian (38% *don't know*).

Consistent with the findings cited in Table 1, residents of smaller provinces and the Territories are more likely than their large-province counterparts to mention *freedom/ rights* among the things they value most about being Canadian. In particular, residents of Saskatchewan mention *freedom/rights* most frequently (78%).

Ontarians are particularly likely to value *health care/education/social programs* (24%), followed by residents of the Atlantic provinces (Nova Scotia: 20%; New Brunswick: 19%; PEI: 18%) and Manitoba (18%).

Table 2 - Most Valued Things About Being Canadian, by Province/The Territories

	Freedom/ Rights	Health Care/ Education/ Social Programs	Safety/ Security Peace	Nature/Weather Scenery Clean/ Beautiful	Don't Know
	%	%	%	%	%
Nova Scotia	65	20	11	13	10
New Brunswick	58	19	17	7	18
PEI	62	18	14	16	9
Quebec	37	6	7	6	38
Ontario	55	24	19	13	7
Manitoba	63	18	12	14	11
Saskatchewan	78	14	9	20	8
Alberta	66	15	12	17	8
British Columbia	54	12	9	22	10
Territories	73	16	7	14	13

Question: What are the things you value most about being Canadian?
(OPEN-END) (ACCEPT UP TO 3 RESPONSES)

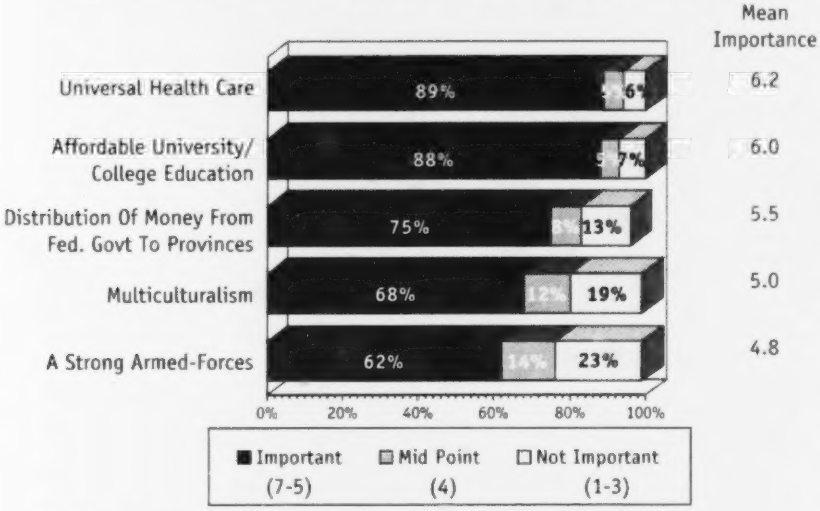
Importance of Principles to Idea of Canada

Respondents were asked to rate the importance of five principles to their idea of Canada on a seven-point scale where one is *not at all important* and seven is *very important.* All of the principles tested are at least *somewhat important* to Canadians' view of Canada, each garnering mean importance ratings above the mid-point of four on the seven point scale.

Most important to Canadians' view of the country are *universal health care* and *affordable university/college tuition*, obtaining mean importance scores of 6.2 and 6.0 respectively.

The *distribution of money from the federal government to the provinces* (5.5), *multiculturalism* (5.0), and *a strong armed-forces* (4.8) are relatively less important to Canadians' view of the country.

Figure 2 - Importance of Principles to Idea of Canada



Question: On a scale from one to seven where one is "not at all important" and seven is "very important", how important are each of the following values to your idea of Canada? READ AND ROTATE

The importance of *multiculturalism* to people's idea of Canada decreases with age. Specifically, *multiculturalism* garners a mean importance rating of 5.7 among Canadians between 18 and 24, compared to 4.6 among those 65 years of age and older.

Older Canadians also attribute greater importance to *a strong armed-forces* than do younger Canadians (5.4 among those 65 years of age and older).

Relative importance of other Canadian principles is consistent across age cohorts.

Table 3 - Mean Importance of Principles to Idea of Canada, by Age

	Universal Health Care	Affordable University/ College Education	Distribution of Money From Federal Gov't To Provinces	Multi-culturalism	A Strong Armed-Forces
18-24	6.1	6.1	5.4	5.7	4.5
25-34	6.2	5.9	5.3	5.5	4.6
35-44	6.3	6.1	5.7	5.2	4.7
45-54	6.0	6.0	5.4	4.8	5.0
55-65	6.0	5.7	5.3	4.7	4.7
65 and Over	6.4	5.8	5.8	4.6	5.4

Question: On a scale from one to seven where one is "not at all important" and seven is "very important", how important are each of the following values to your idea of Canada?
(READ AND ROTATE)

With the exception of *multiculturalism*, Quebec residents rate the importance of each value lower than do other provinces and the Territories. In particular, Quebec residents attribute much lower importance to the *distribution of money from the federal government to the provinces* (4.9) and *a strong armed-forces* (4.2) to their idea of being Canadian.

Multiculturalism is least important of all principles to residents of Alberta and Saskatchewan's idea of Canada (4.7 respectively). Finally, a *strong armed-forces* is most important to residents of the Maritime provinces: Nova Scotia: 5.5; PEI: 5.4; New Brunswick: 5.3.

Interestingly, *the distribution of money from the federal government to the provinces* is of relatively equal importance across all provinces (with the exception, as previously noted, of Quebec).

Table 4 - Mean Importance of Principles to Idea of Canada, by Province/The Territories

	Universal Health Care	Affordable University College Education	Distribution of Money From Federal Gov't To Provinces	Multi-culturalism	A Strong Armed-Forces
Nova Scotia	6.6	5.9	6.0	5.5	5.5
New Brunswick	6.5	6.1	5.8	5.2	5.3
PEI	6.7	6.1	5.8	5.3	5.4
Quebec	5.5	5.6	4.9	5.0	4.2
Ontario	6.5	6.2	5.7	5.0	5.1
Manitoba	6.4	6.0	5.6	5.1	5.0
Saskatchewan	6.4	5.8	5.7	4.7	5.0
Alberta	6.1	5.8	5.6	4.7	4.9
British Columbia	6.3	5.9	5.8	5.1	4.8
Territories	6.5	6.1	5.8	5.2	5.0

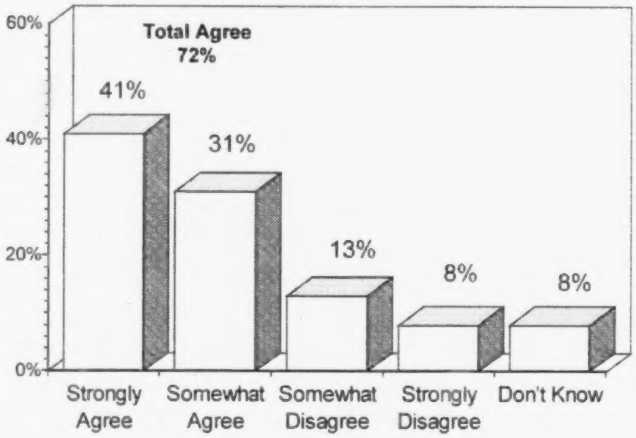
Question: On a scale from one to seven where one is "not at all important" and seven is "very important", how important are each of the following values to your idea of Canada? (READ AND ROTATE)

Treatment by Federal Government

Perceived Treatment of Small Provinces/Territories by Federal Government

Seven-in-ten Canadians agree that *smaller provinces and territories are often ignored by the federal government in the interest of larger provinces*, including 41% who *strongly agree* with this statement. Two-fifths (21%) disagree with this statement, including 8% who do so *strongly*. Another 8% of Canadians *don't know*.

Figure 3 - Perceived Treatment of Small Provinces/Territories by Federal Government



Question: Do you agree or disagree that smaller provinces and territories are often ignored by the federal government in the interest of larger provinces?

In each province and territory, a clear majority agrees that *smaller provinces and territories are often ignored by the federal government in the interest of larger provinces.*

Agreement is highest in Manitoba (90%), Nova Scotia (86%), Saskatchewan (84%), and New Brunswick (84%). *Strong agreement* is also highest in these provinces: Nova Scotia (66% *strongly agree*); New Brunswick (62%); Saskatchewan (61%); Manitoba (57%).

Surprisingly, residents of PEI are among the provinces *least* likely to *strongly agree* that small provinces are often ignored (45%), after Alberta (42%), Quebec (36%) and Ontario (33%).

Table 5 - Perceived Treatment of Small Provinces/Territories by Federal Government, by Province/The Territories

	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	Don't Know
	%	%	%	%	%
Nova Scotia	66	20	6	6	2
New Brunswick	62	22			
9	3	4			
PEI	45	30	16	9	1
Quebec	36	34	15	7	8
Ontario	33	36	14	9	9
Manitoba	57	33	3	2	5
Saskatchewan	61	23	8	4	4
Alberta	42	25	12	12	8
British Columbia	49	24	10	10	8
Territories	56	23	12	6	3

Question: Do you agree or disagree that smaller provinces and territories are often ignored by the federal government in the interest of larger provinces?

Living in a small community heightens the likelihood of sharing the opinion that *smaller provinces and territories are often ignored by the federal government in the interest of larger provinces.* Specifically, residents of smaller cities (82%), small towns (79%), and rural areas (73%) are more likely than their counterparts in suburban areas (68%) and large cities (59%) to agree that *smaller provinces and territories often get ignored.*

This finding is likely a result of these smaller towns and rural areas being found in the country's smaller provinces, as demonstrated in the *Methodology* section of this report.

Table 6 - Perceived Treatment of Small Provinces/Territories by Federal Government, by Size of Community

	Agree	Disagree	Don't Know
	%	%	%
Large City Over Half a Million	59	31	10
A Smaller City	82	16	2
A Suburban Area	68	21	11
A Small Town	79	15	7
A Rural Area	73	15	13

Question: Do you agree or disagree that smaller provinces and territories are often ignored by the federal government in the interest of larger provinces?

Perceived Treatment of Own Province/ Territory by Federal Government

There is significant variance across the country in residents' belief that *their own province/territory is often ignored by the federal government in the interest of other provinces and territories*. Residents of Canada's smaller provinces are most likely to agree with this statement.

Specifically, residents of Saskatchewan (84%), Nova Scotia (83%), New Brunswick (79%), Manitoba (77%), and the Territories (74%) are most likely to feel that *their province/ territory is often ignored by the federal government in the interest of other provinces and territories*. Residents of these regions are also very likely to *strongly agree* with this statement: Saskatchewan: 57%; the Territories: 51%; Nova Scotia: 49%; Manitoba: 40%; New Brunswick: 39%.

Meanwhile, residents of PEI (68%), Alberta (61%), and Quebec (55%) are slightly less likely to feel *their province is ignored by the federal government in the interest of other provinces or territories*.

Only a small proportion of Ontarians feel *their province is ignored* (28%). In fact, Ontario is the only province where a majority disagrees (68%).

Table 7 - Perceived Treatment of Own Province/Territory by Federal Government, by Province/The Territories

	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree	Don't Know
	%	%	%	%	%
Nova Scotia	49	34	10	3	3
New Brunswick	39	40	12	6	3
PEI	34	34	19	10	2
Quebec	27	28	25	15	5
Ontario	12	16	32	36	4
Manitoba	40	37	13	6	3
Saskatchewan	57	27	11	2	4
Alberta	33	28	18	15	6
British Columbia	50	21	15	6	8
Territories	51	23	15	6	5

Question: Do you agree or disagree that your province/territory is often ignored by the federal government in the interest of other provinces or territories?

Respondents who agree that their province is often ignored by the federal government were asked to say in their own words why they feel this way.

Rather than providing a rationale for their position, many respondents justified why they feel their province is ignored by the federal government. In each province, at least one-quarter of residents say *they don't get their fair share*. The observation that *Quebec and Ontario are the favoured provinces* is also common across the country.

At least one-in-ten residents of PEI (25%), the Territories (18%), Nova Scotia (14%), Saskatchewan (12%), Manitoba (11%), and New Brunswick (10%) mention their *small size and population* as a reason for feeling ignored. Meanwhile, residents of the western provinces-British Columbia and Alberta – frequently note that *power goes to other regions of Canada* (17% and 11% respectively).

One-quarter of Saskatchewan residents feel that the federal government does not pay adequate attention to *agricultural policy* (25%).

Table 8 - Most Common Reasons for Agreeing That Federal Government Often Ignores Own Province/Territory, by Province/The Territories

(OPEN-END) (THREE MENTION)

Nova Scotia

- Don't Get Fair Share (30%)
- We're A Small Prov/Pop (14%)
- Ont/PQ Favoured (11%)
- Lack of Industry/Poor (10%)
- Lack Employment/Wages (10%)
- Big Prov Favoured (9%)

New Brunswick

- Don't Get Fair Share (25%)
- Big Prov Favoured (14%)
- Ont/PQ Favoured (13%)
- Atlantic Prov In Need (11%)
- Health Care Cutbacks (10%)
- We're A Small Prov/Pop (10%)

PEI

- Don't Get Fair Share (34%)
- We're A Small Prov/Pop (25%)
- Ont/PQ Favoured (9%)

Quebec

- Don't Get Fair Share (30%)
- Difference In Parties/Politics (13%)
- Health Care Cutbacks (13%)
- Fed Transfer Payments (9%)

Ontario

- Don't Get Fair Share (30%)
- PQ Favoured (24%)
- Social Programs/Laws (8%)

Manitoba

- Ont/PQ Favoured (36%)
- Don't Get Fair Share (21%)
- Other Prov Favoured (12%)
- We're A Small Prov/Pop (11%)

Saskatchewan

- Don't Get Fair Share (35%)
- Agricultural Policies (25%)
- We're A Small Prov/Pop (12%)
- Other Prov Favoured (10%)
- Ont/PQ Favoured (10%)
- Difference In Parties/Politics (9%)

Alberta

- Don't Get Fair Share (31%)
- Ont/PQ Favoured (19%)
- Other Regions Get Power (11%)

British Columbia

- Don't Get Fair Share (36%)
- Other Regions Get Power (17%)
- Ont/PQ Favoured (11%)
- Difference In Parties/Politics (10%)
- No Political Clout/Poor Rep (8%)
- Lack of Industry/Poor (8%)
- Health Care Cutbacks (8%)

Territories

- Don't Get Fair Share (34%)
- We're A Small Prov/Pop (18%)
- Lack of Industry/Poor (13%)

Question: (IF "AGREE" IN Q10) Why do you say that? (OPEN-END) (ACCEPT UP TO 3 RESPONSES)

Meanwhile, across the provinces and territories, those who disagree that *their province or territory is ignored* often say it is because they feel their province is *treated equally, that it gets its fair share,* and *is not ignored.* Ontarians specifically note that *Ontario is favoured* and is *richer* than other provinces (39%), while Quebec residents specify that *Quebec is an important province, and an important part of Canada* (36%). Despite disagreeing that their province or territory is often ignored, some people still feel that their *province or territory is suffering.*

Table 9 - Most Common Reasons for Disagreeing That Federal Government Often Ignores Own Province/Territory, by Province/The Territories

(OPEN-END) (THREE MENTION)

Nova Scotia
Treated Eql/Not Ignored (41%)

New Brunswick
Treated Eql/Not Ignored (59%)
(NEG.) Prov Suffering (18%)
Fed Gov't Does Good Job (9%)

PEI
Treated Eql/Not Ignored (59%)
Fed Gov't Does Good Job (14%)
Big Prov/Pop, Better Rep (11%)
(NEG.) Prov Suffering (8%)

Quebec
Treated Eql/Not Ignored (36%)
QC Important Province (36%)
Big Prov/Pop, Better Rep (14%)

Ontario
Ontario Favoured/Richer (39%)
Treated Eql/Not Ignored (30%)(NEG.)
Big Prov/Pop, Better Rep (13%)
(NEG.) Prov Suffering (8%)
Fed. Gov't Does Good Job (8%)

Manitoba
Treated Eql/Not Ignored (54%)
Prov Suffering (12%)
Federal Gov't Does Good Job (8%)
Big Prov/Pop, Better Rep (8%)

Saskatchewan
Treated Eql/Not Ignored (35%)
(NEG.) Prov Suffering (24%
(NEG.) Emplymnt/People
Leaving (12%)

Alberta
Treated Eql/Not Ignored (45%)
(NEGATIVE) Prov Suffering (38%)

British Columbia
Treated Eql/Not Ignored (48%
)(NEG.) Prov Suffering (19%)

Territories
Treated Eql/Not Ignored (56%)
(NEG.) Territory Suffering (11%)

Question: (IF "DISAGREE" IN Q10) Why do you say that? (OPEN-END) (ACCEPT UP TO 3 RESPONSES)

Canadians' Impressions of Newfoundland and Labrador

Federal-Provincial Relations

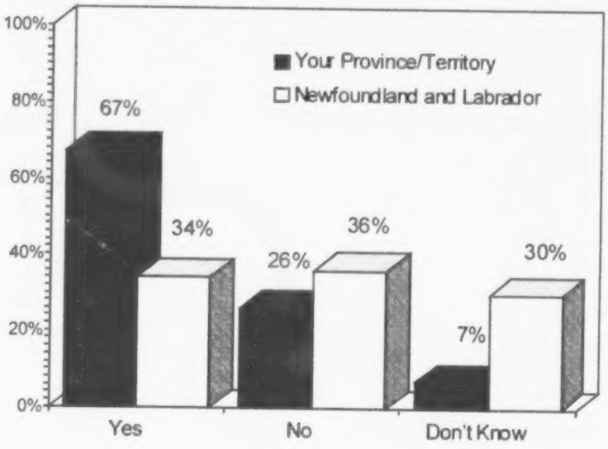
Respect From Federal Government

Approximately two-thirds of Canadians believe their province is treated with respect by the federal government (67%). This represents almost twice as many Canadians who believe that Newfoundland and Labrador is treated with respect by the federal government (34%).

Another significant difference between the results of these questions is in the proportion of Canadians who do not provide an evaluation. Specifically, only 7% report they *don't know* whether or not the federal government treats their province/territory with respect, while a full 30% of Canadians *don't know* how to evaluate the relationship between Newfoundland and Labrador and the federal government.

This is further evidence of Canadians' lack of awareness about the province.

Figure 4 - Perceived Respect From Federal Government: Own Province/Territory vs. Newfoundland and Labrador



Question: Do you think your province/territory is treated with respect by the federal government?
Do you think that Newfoundland and Labrador is treated with respect by the federal government?

Differences appear when gauging levels of uncertainty by province, with residents of Saskatchewan (39%), Quebec (38%), and the Territories (38%) each demonstrating a high likelihood to *not know* how to evaluate the relationship between Ottawa and Newfoundland and Labrador.

Among those who offer a response, residents of Alberta (59%) and Saskatchewan (56%) are least likely to feel the federal government treats their province respectfully, followed by residents of Nova Scotia (66%), Manitoba (64%), the Territories (64%), Quebec (63%), and British Columbia (61%). In contrast, Ontario and PEI lead all provinces in terms of feeling as though they receive respect from Ottawa (87% and 86%, respectively). Residents of PEI are also most likely to feel that Newfoundland and Labrador garners respect from federal powers (64%). This is consistent with the earlier finding that residents of PEI tend not to think that smaller provinces are ignored.

Comparatively, the western provinces are less likely than other regions of Canada to feel that Ottawa treats Newfoundland and Labrador respectfully.

Table 10 - Perceived Respect From Federal Government: Own Province/Territory vs. Newfoundland and Labrador, by Province/The Territories[1]

	Own Province/Territory Treated With Respect by Federal Gov't		*Newfoundland & Labrador Treated With Respect by Federal Gov't*	
	(% Yes)	(% No)	(% Yes)	(% No)
Nova Scotia	66	34	45	55
New Brunswick	74	26	56	44
PEI	86	14	64	36
Quebec	63	37	55	46
Ontario	87	14	50	50
Manitoba	64	36	38	62
Saskatchewan	56	44	41	59
Alberta	59	41	42	58
British Columbia	61	39	41	9
Territories	64	36	49	51

Question: Do you think your province/territory is treated with respect by the federal government?
Do you think that Newfoundland and Labrador is treated with respect by the federal government?

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[1] The percentages cited are only among those respondents who offered a response to each question. That is, people who responded *don't know* were excluded in this calculation.

Among those who offer a response, Canadians under 45 years of age are more likely than their older counterparts to feel that their province or territory gets respect from Ottawa (80% vs. 65% respectively). Younger Canadians are also more likely to feel that Newfoundland and Labrador is treated with respect (55% vs. 43% respectively).

Table 11 - Perceived Respect From Federal Government: Own Province/Territory vs. Newfoundland and Labrador, by Province/The Territories[2]

	Own Province/Territory Treated With Respect by Federal Gov't		*Newfoundland & Labrador Treated With Respect by Federal Gov't*	
	(% Yes)	(% No)	(% Yes)	(% No)
18-44	80	20	55	45
45 and Over	65	35	43	57

Question: Do you think your province/territory is treated with respect by the federal government?
Do you think that Newfoundland and Labrador is treated with respect by the federal government?

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[2] The percentages cited are only among those respondents who offered a response to each question. That is, people who responded *don't know* were excluded in this calculation.

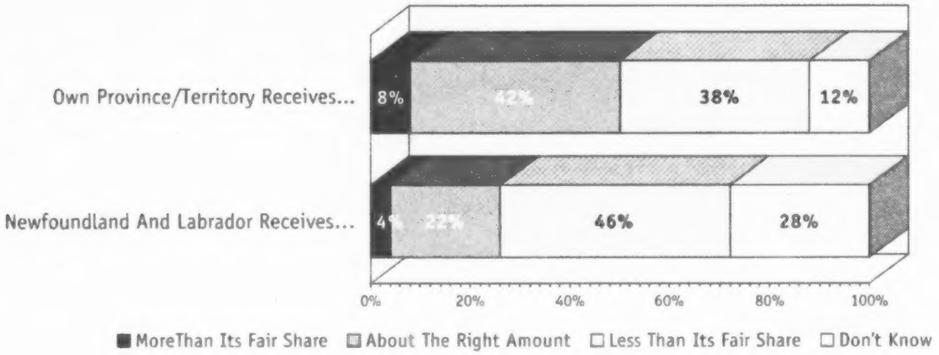
Perceived Fairness of Federal Transfer Payments

Two-fifths of Canadians feel their province or territory receives *about the right amount* (42%) and *less than its fair share* (38%) in federal distribution payments. Only a small proportion of Canadians concede to getting *more than their fair share* (8%).

Comparatively, Canadians are more likely to believe that Newfoundland and Labrador receives *less than its fair share* from the federal government (46%). Less than one-quarter believes Newfoundland and Labrador receives *about the right amount* (22%), while only 4% of Canadians report that the province receives *more than its fair share*.

Once again, the proportion of Canadians who are unable to provide an evaluation on the situation is elevated (28%) when considering Newfoundland and Labrador's situation.

Figure 5 - Perceived Fairness of Federal Transfer Payments to Own Province/Territory vs. Newfoundland and Labrador



Question: Thinking about the money that the federal government distributes to the provinces and territories, does your province/territory receive...(READ LIST)

And thinking about this money, do you think that Newfoundland and Labrador receives ...(READ LIST)

Among those who offer a response, Ontarians are most likely to believe their province receives *more than its fair share* (17%) and *about the right amount* (64%). Ontarians are by far the least likely to feel they receive *less than their fair share* (20%).

In contrast, those most likely to feel their province is hard done by include residents of Saskatchewan (76% *less than fair share*), Nova Scotia (74%), and British Columbia (69%).

Perceptions among residents of PEI do not mirror those of fellow Maritime residents, and rather are closer to those of central Canada, with 48% of PEI residents believing that their province receives *about the right amount* in federal distribution payments.

Table 12 - Perceived Fairness of Federal Transfer Payments: Own Province/Territory, by Province/The Territories[3]

	More Than Its Fair Share	About The Right Amount	Less Than Its Fair Share
	%	%	%
Nova Scotia	3	23	74
New Brunswick	4	34	63
PEI	3	48	49
Quebec	4	45	50
Ontario	17	64	20
Manitoba	1	40	59
Saskatchewan	2	22	76
Alberta	7	41	52
British Columbia	2	29	69
Territories	11	39	50

Question: Thinking about the money that the federal government distributes to the provinces and territories, does your province/territory receive...(READ LIST)

---

[3] The percentages cited are only among those respondents who offered a response to each question. That is, people who responded *don't know* were excluded in this calculation.

When asked about the proportion of federal monies distributed to Newfoundland and Labrador, those least able to offer an opinion include residents of western Canada (Manitoba: 31% *don't know*; Saskatchewan: 36%; Alberta: 33%; British Columbia: 30%), the Territories (40%), and New Brunswick (30%).

Among those who offer a response, residents of Nova Scotia (79%) and Manitoba (78%) are most likely to feel that Newfoundland and Labrador receives *less than its fair share*. This view is least prevalent in Quebec (59%).

Table 13 - Perceived Fairness of Federal Transfer Payments: Newfoundland and Labrador, by Province/The Territories[4]

	More Than Its Fair Share	About The Right Amount	Less Than Its Fair Share
	%	%	%
Nova Scotia	5	16	79
New Brunswick	5	30	66
PEI	2	32	66
Quebec	10	31	59
Ontario	3	32	65
Manitoba	5	17	78
Saskatchewan	5	27	68
Alberta	6	33	61
British Columbia	9	30	61
Territories	7	31	63

Question: And thinking about this money, do you think that Newfoundland and Labrador receives ...(READ LIST)

---

[4] The percentages cited are only among those respondents who offered a response to each question. That is, people who responded *don't know* were excluded in this calculation.

Among those who offer a response to this question, Canadians without a post-secondary education show a greater likelihood of feeling that Newfoundland and Labrador receives *less than its fair share* than their more educated counterparts (72% vs. 57%).

Those without a post-secondary education are also more likely to offer an opinion on this issue (24% *don't know* vs. 31% respectively).

Table 14 - Perceived Fairness of Federal Transfer Payments: Newfoundland and Labrador, by Education

	More Than Its Fair Share	About The Right Amount	Less Than Its Fair Share
	%	%	%
No Post-secondary	4	24	72
Post-secondary	8	35	57

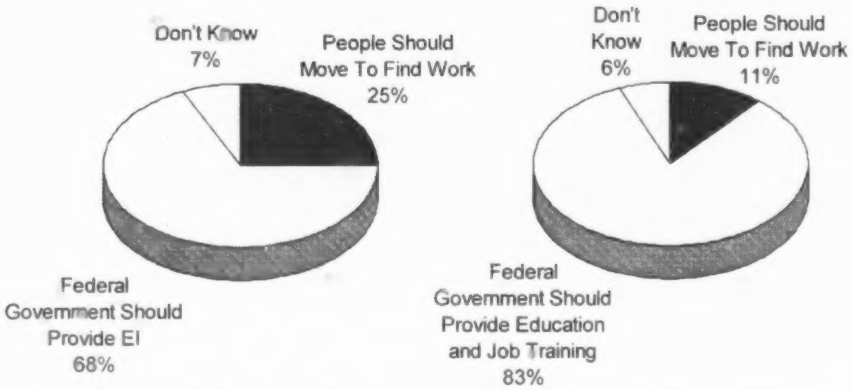
Question: And thinking about this money, do you think that Newfoundland and Labrador receives ...(READ LIST)

Support For Federal Assistance to Rural Residents in Need

Survey respondents were asked whether people in rural Canadian communities who cannot find work year-round should look to the federal government for assistance or whether they should move to find work. Half of respondents were told that federal assistance would consist of *employment insurance*, while the other half were told it would come in the form of *education and job training.*[5]

A clear majority of Canadians support federal government assistance for rural Canadians without year-round employment, regardless of the nature of the initiative. However, Canadians are more likely to support assistance through *education and job training* (83%) than through *employment insurance* (68%).

Figure 6 - Support for Federal Assistance to Rural Canadians in Need (Split Sample)



Question: Many communities in rural areas depend on seasonal jobs in such industries as farming, logging and tourism. If people in these communities cannot find enough work year-round, do you think they should move to another city or province where they can find such work, or should the federal government provide assistance such as...(SPLIT SAMPLE) employment insurance (n=635)/education and job training (n=639)?

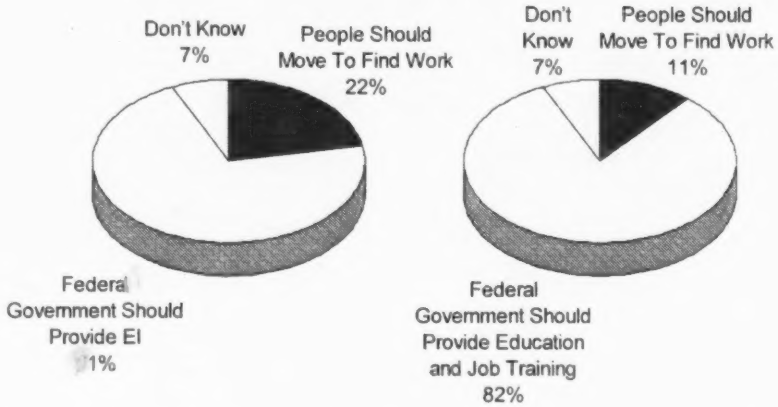
---

[5] This question format, wherein half of people interviewed get one version of the question and the other half get the other, is denoted as a *split sample* in the Interview Schedule. The purpose is to assess the relative effect that each type of federal assistance has on people's position.

When this same question is posed in the context of rural residents of Newfoundland and Labrador without year-round employment, Canadians are equally supportive of federal assistance as they are for rural Canadians who cannot find year-round work.[6]

Specifically, 82% support the provision of *education and job training* in rural Newfoundland and Labrador, compared to 83% who support this initiative for rural Canadians in need. Similarly, 71% support assistance through *employment insurance* in rural Newfoundland and Labrador, compared to 68% who support this initiative for rural Canadians.

Figure 7 - Support for Federal Assistance to Rural Residents in Newfoundland and Labrador



Question: And now thinking about small communities in Newfoundland and Labrador, where the fisheries may not provide year-round work, do you think that people there should move to another province or city to find work, or should the federal government provide assistance such as...(SPLIT SAMPLE) employment insurance (n=635)/education and job training (n=639)?

---

[6] People received the same example of federal assistance in both questions. For example, those asked about assistance in the form of *education and job training* in the first question heard the same example in the second question..

A clear majority of residents of all provinces support federal assistance for in-need residents of rural Canada and Newfoundland and Labrador, in either of the formats tested. However, *education and job training* tends to garner more widespread support.

Quebec residents show the highest support for *education and job training* for rural Canadians (96%) and residents of Newfoundland and Labrador (93%) in need. In contrast, Albertans' support is among the lowest for both types of assistance under either regional scenario.

Table 15 - Support for Federal Assistance to Rural Residents in Need, by Province/The Territories (Split Sample)

	For Rural Canada		*For Rural Nfld & Lab*	
	Support Assistance: Education & Job Training %	Support Assistance: Employment Insurance %	Support Assistance: Education & Job Training %	Support Assistance: Employment Insurance %
Nova Scotia	83	63	81	68
New Brunswick	90	79	83	79
PEI	83	87	77	87
Quebec	96	78	93	87
Ontario	82	69	84	66
Manitoba	84	64	82	72
Saskatchewan	77	59	80	69
Alberta	67	57	65	61
British Columbia	77	55	72	58
Territories	78	71	81	71

Question: And now thinking about small communities in Newfoundland and Labrador, where the fisheries may not provide year-round work, do you think that people there should move to another province or city to find work, or should the federal government provide assistance such as... (SPLIT SAMPLE) employment insurance (n=631)/education and job training (n=639)?

Rural Canadians' support for federal assistance in rural communities across Canada and in Newfoundland and Labrador is on par or only slightly higher than that of urban Canadians.

Table 16 - Support for Federal Assistance to Rural Residents in Need, by Urban/Rural (Split Sample)

	For Rural Canada		*For Rural Nfld & Lab*	
	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance
	%	%	%	%
Rural	90	68	86	76
Urban	84	68	83	70

Question: And now thinking about small communities in Newfoundland and Labrador, where the fisheries may not provide year-round work, do you think that people there should move to another province or city to find work, or should the federal government provide assistance such as...(SPLIT SAMPLE) employment insurance (n=615)/education and job training (n=639)?

Canadians without a post-secondary education are more supportive than their more educated counterparts of assisting those in need in rural Canada and Newfoundland and Labrador, whether it is through *education and job training* or *employment insurance*.

Table 17 - Support for Federal Assistance to Rural Residents in Need, by Education (Split Sample)

	For Rural Canada		*For Rural Nfld & Lab*	
	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance
	%	%	%	%
No Post-secondary	88	75	87	83
Post-secondary	80	64	80	64

Question: And now thinking about small communities in Newfoundland and Labrador, where the fisheries may not provide year-round work, do you think that people there should move to another province or city to find work, or should the federal government provide assistance such as...(SPLIT SAMPLE) employment insurance (n=615)/education and job training (n=639)?

Men and women's support is virtually on par for assistance through *education and job training* in rural Canada and Newfoundland and Labrador. However, in both regional scenarios women are more supportive than men of assistance through *employment insurance.*

Table 18 - Support for Federal Assistance to Rural Residents in Need, by Gender (Split Sample)

	For Rural Canada		*For Rural Nfld & Lab*	
	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance	Support Assistance: Education & Job Training	Support Assistance: Employment Insurance
	%	%	%	%
Men	81	59	81	64
Women	85	76	83	77

Question: And now thinking about small communities in Newfoundland and Labrador, where the fisheries may not provide year-round work, do you think that people there should move to another province or city to find work, or should the federal government provide assistance such as.../SPLIT SAMPLE) employment insurance (n=635)/education and job training (n=639)?

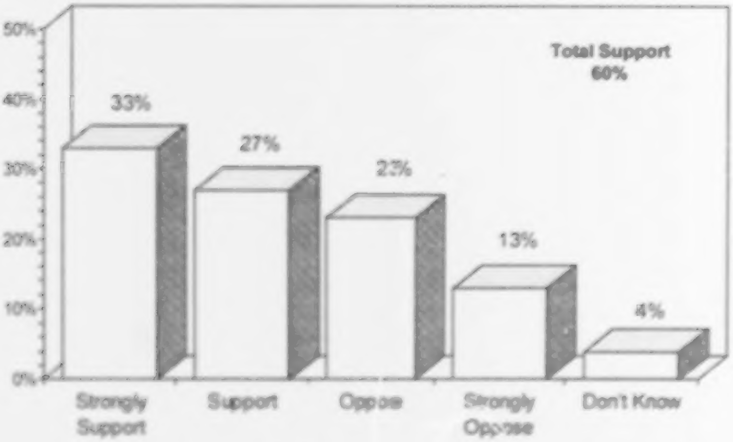
The Senate of Canada

Respondents were given the following information about the Senate of Canada, following which they were asked about their support for equal provincial/territorial representation in the upper house:

> *The Senate of Canada has 105 members. Ontario and Quebec each have 24 Senators, while each of the remaining provinces and territories have 10 or less.*

Three-in-five Canadians support equal provincial/territorial representation in the Senate (60%, include 33% who *strongly agree*), compared to thirty-six percent who express opposition.

Figure 8 - Support For Equal Provincial/Territorial Representation in the Senate of Canada



Question: The Senate of Canada has 105 members. Ontario and Québec each have 24 senators, while each of the remaining provinces and territories have 10 or less. Some people believe Canada's Senatewould be more effective if each province and territory were represented equally so that larger and smaller provinces would have the same number of representatives in the senate. Do you support or oppose this proposal?

Support for equal provincial/territorial representation in the Senate is highest in western Canada (BC: 83%; Alberta: 81%; Saskatchewan: 81%). *Strong support* is also highest in the west (BC: 58%; Alberta: 54%; and Saskatchewan: 52%).

Meanwhile, support is lowest in Quebec (51%) and Ontario (48%), whose representation would be diluted under the proposal. Support is also low in PEI (55%).

Table 19 - Support For Equal Provincial/Territorial Representation in the Senate of Canada, by Province/The Territories

	Strongly Support	Support	Oppose	Strongly Oppose
	%	%	%	%
Nova Scotia	44	25	6	9
New Brunswick	42	26	21	6
PEI	30	25	23	15
Quebec	23	28	30	14
Ontario	21	27	29	19
Manitoba	42	30	17	6
Saskatchewan	52	29	13	3
Alberta	54	27	10	5
British Columbia	58	25	8	8
Territories	44	33	14	9

Question: The Senate of Canada has 105 members. Ontario and Québec each have 24 senators, while each of the remaining provinces and territories have 10 or less. Some people believe Canada's Senate would be more effective if each province and territory were represented equally, so that larger and smaller provinces would have the same number of representatives in the senate. Do you support or oppose this proposal?

Support for equal provincial/territorial representation in the Senate is higher among Canadians with no post-secondary education than it is among those who are post-secondary educated (66% vs. 57%). *Strong* support is also highest among those without a post-secondary education (41% vs. 28%).

Table 20 - Support For Equal Provincial/Territorial Representation in the Senate of Canada, by Education

	Strongly Support	Support	Oppose	Strongly Oppose
	%	%	%	%
No Post-secondary	41	25	21	7
Post-secondary	28	29	24	18

Question: The Senate of Canada has 105 members. Ontario and Québec each have 24 senators, while each of the remaining provinces and territories have 10 or less. Some people believe Canada's Senate would be more effective if each province and territory were represented equally, so that larger and smaller provinces would have the same number of representatives in the senate. Do you support or oppose this proposal?

Support for equal provincial/territorial representation in the Senate peaks among young women between 18 and 34 years of age (74%). *Strong* support is also highest among this group, breaking two-fifths (44%). Support is consistent among all age cohorts of men, at about three-fifths.

Table 21 - Support For Equal Provincial/Territorial Representation in the Senate of Canada, by Genderation

	Strongly Support	Support	Oppose	Strongly Oppose
	%	%	%	%
Men 18-34	27	32	23	17
Men 35-54	32	21	23	21
Men 55 And Over	31	27	17	19
Women 18-34	44	30	19	1
Women 35-54	32	31	29	7
Women 55 And Over	37	23	22	12

Question: The Senate of Canada has 105 members. Ontario and Québec each have 24 senators, while each of the remaining provinces and territories have 10 or less. Some people believe Canada's Senate would be more effective if each province and territory were represented equally, so that larger and smaller provinces would have the same number of representatives in the senate. Do you support or oppose this proposal?

Contributions to Canada

Contributions to Canada: Newfoundland and Labrador vs. Own Province Territory

When asked about their province's greatest contribution to Canada, western Canadians most often perceive it to be resource-related. Specifically, residents of Saskatchewan and Manitoba commonly identify *agriculture* (55% and 35% respectively), Albertans mention *oil/natural gas* (45%), and British Columbians cite *forestry/logging* (21%).

Central Canadians are more likely to perceive their respective province's contribution linked to economic strength. Both Ontarians (46%) and residents of Quebec (18%) cite *economy/industry/money/wealth/ taxes* most frequently.

Table 22 - Greatest Contribution by Own Province/Territory to Canada, by Province/The Territories (OPEN-END)

Nova Scotia	New Brunswick	PEI
Tourism/Beauty (14%)	**Bilingual Prov/French (13%)**	**Tourism/Beauty (20%)**
Fisheries/Ports (11%)	**People/Attitude (10%)**	**Agriculture (15%)**
People/Attitude (12%)	**Forestry/Logging (10%)**	**People/Attitude (10%)**
History/Culture (10%)	**Economy/Industry/Wealth (9%)**	
Educated Workforce (7%)		
Quebec	**Ontario**	**Manitoba**
Econ./Industry/Wealth (18%)	**Economy/Industry/Wealth (46%)**	**Agriculture (35%)**
Hydro/Electricity (10%)		**Hydro/Electricity (10%)**
History/Culture (7%)		
Saskatchewan	**Alberta**	**British Columbia**
Agriculture (55%)	**Oil/Natural Gas (45%)**	**Forestry/Logging (21%)**
People/Attitude (8%)	**Natural Resources (13%)**	**Tourism/Beauty (17%)**
	Economy/Industry/Wealth (12%)	**Econ./Industry/Wealth (15%)**
		Natural Resources (11%)
Territories		
Tourism/Beauty (9%)		
Natural Resources (8%)		

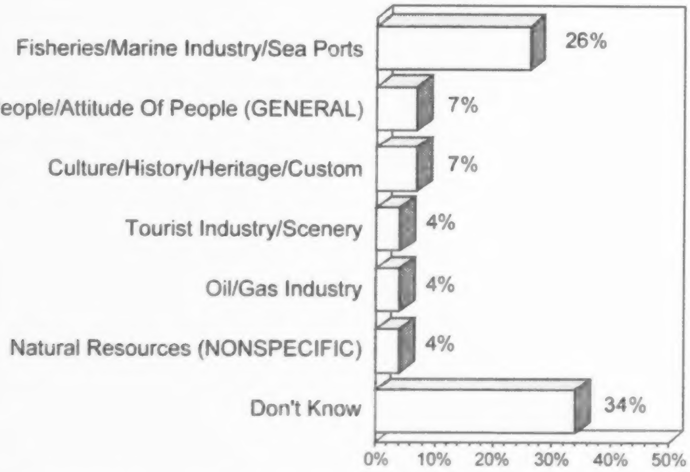
Question: In your opinion, what is your province's/territory's greatest contribution to Canada? (OPEN-END) (ACCEPT ONLY ONE RESPONSE)

Greatest Contribution by Newfoundland and Labrador to Canada

As demonstrated earlier in this report, Canadians display greater uncertainty when asked to evaluate Newfoundland and Labrador on an open-ended basis. Specifically, when asked to state in their own words the province's most significant contribution to Canada, one-third of Canadians *do not know* (34%).

Most often Canadians identify *fisheries/marine industry/sea ports* (26%) as Newfoundland and Labrador's greatest contribution to Canada. Much less often, Canadians note Newfoundland and Labrador's *people/their attitude* (7%), *culture/history/heritage/ custom* (7%), *tourism/ scenery* (4%), *the oil/gas industry* (4%), and *natural resources* (4%).

Figure 9 - Greatest Contribution by Newfoundland and Labrador to Canada



Question: And what do you feel is Newfoundland and Labrador's greatest contribution to Canada? (OPEN-END) (ACCEPT ONLY ONE RESPONSE)

Quebec residents are least able to identify Newfoundland and Labrador's most significant contribution to Canada, with over one-half of residents not providing a response (56%).

Prairie residents – those in Manitoba (44%) and Saskatchewan (39%) – are most likely to note the *fisheries/marine industry/sea ports* as Newfoundland and Labrador's most significant contribution to Canada.

Table 23 - Greatest Contribution by Newfoundland and Labrador to Canada, by Province (OPEN-END)

	Fisheries/ Marine Industry/ Sea Ports	People/ Attitudes	Culture/ Heritage	Don't Know
	%	%	%	%
Nova Scotia	17	15	6	28
New Brunswick	26	10	2	39
PEI	18	20	5	30
Quebec	14	4	3	56
Ontario	27	8	9	24
Manitoba	44	2	10	26
Saskatchewan	39	8	4	30
Alberta	27	8	5	32
British Columbia	33	10	8	24
Territories	17	12	12	31

Question: And what do you feel is Newfoundland and Labrador's greatest contribution to Canada? (OPEN-END) (ACCEPT ONLY ONE RESPONSE)

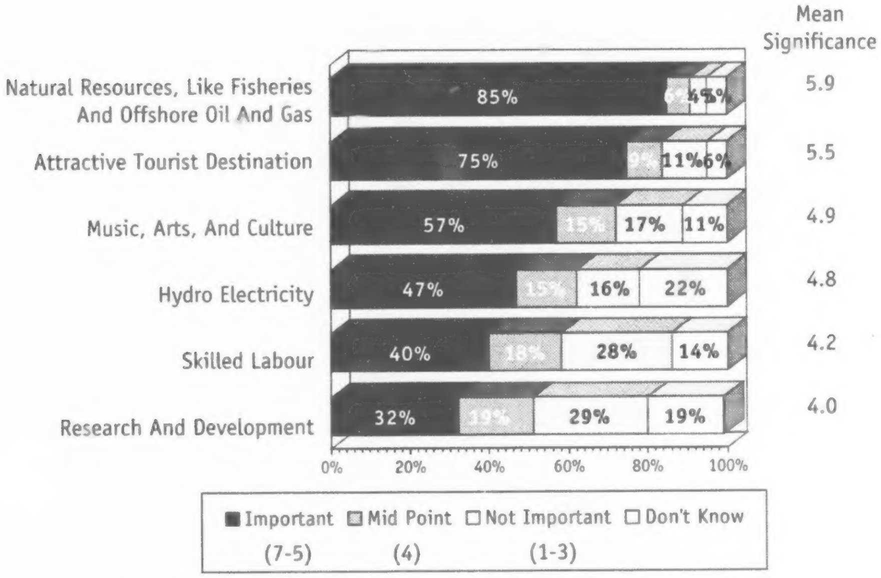
Significance of Newfoundland and Labrador's Contribution in Various Areas

Respondents were asked to assess the significance of Newfoundland and Labrador's contribution to Canada in six areas, on a seven-point scale where one is *not at all significant* and seven is *very significant*. None of the areas tested garner a significance rating lower than four, the mid-point on the scale.

Canadians see Newfoundland and Labrador's most significant contributions as *natural resources like fisheries and offshore oil and gas* (5.9) and as an *attractive tourist destination* (5.5).

Meanwhile, Newfoundland and Labrador's contribution to *music, arts and culture* (4.9) and *hydro electricity* (4.8) are seen to be slightly less significant, followed by *skilled labour* (4.2) and *research and development* (4.0).

Figure 10 - Significance of Newfoundland and Labrador's Contribution to Canada in Various Areas



Question: On a seven-point scale where one is not at all significant and seven is very significant, how significant do you think Newfoundland and Labrador's contribution to Canada is in each of the following areas? (READ & ROTATE)

Residents of Quebec tend to attribute lower significance to Newfoundland and Labrador's contribution in each of the areas considered. Particularly insignificant, according to residents of Quebec, is Newfoundland and Labrador's contribution as an *attractive tourist destination* (4.7), to *music, arts and culture* (4.3), and in *skilled labour* (4.0).

The Atlantic provinces feel that Newfoundland and Labrador's contribution to *music, arts and culture* is particularly significant (PEI: 5.7; Nova Scotia: 5.6; New Brunswick: 5.4), as do the Territories (5.6).

Table 24 - Significance of Newfoundland and Labrador's Contribution to Canada in Various Areas, by Province/The Territories (Mean Score)

	Natural Resources	Attractive Tourist Destination	Music Arts & Culture	Hydro Electricity	Skilled Labour	Research & Development
Nova Scotia	6.1	6.2	5.6	5.3	4.7	4.5
New Brunswick	6.1	5.9	5.4	5.1	4.7	4.6
PEI	6.0	5.8	5.7	5.4	4.7	4.4
Quebec	5.7	4.7	4.3	5.0	4.0	4.0
Ontario	6.1	5.9	5.0	4.6	4.1	3.9
Manitoba	6.1	5.6	4.8	4.9	4.3	4.0
Saskatchewan	5.8	5.6	4.9	5.3	4.6	4.6
Alberta	5.9	5.5	5.1	4.9	4.5	4.0
British Columbia	5.9	5.4	5.3	.5	4.4	4.0
Territories	5.7	5.9	5.6	5.0	5.0	4.3

Question: On a seven-point scale where one is not at all significant and seven is very significant, how significant do you think Newfoundland and Labrador's contribution to Canada is in each of the following areas? (READ & ROTATE)

Comparative Overall Contribution to Canada: Newfoundland and Labrador vs. Own Province/Territory

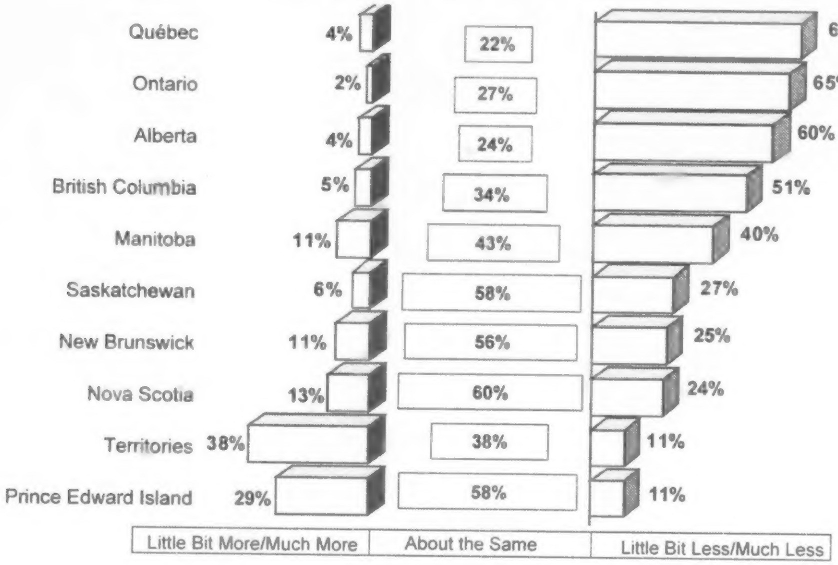
There is significant variation across the country in terms of Canadians' perceptions of their own province/territory's overall contribution to Canada compared to that of Newfoundland and Labrador.

A majority of residents of Canada's central and western-most provinces feel that their provinces contribute more than Newfoundland and Labrador, while Prairie and Atlantic residents offer a more modest assessment of their provinces' contribution.

Specifically, residents of central (Quebec: 69%; Ontario: 65%) and western Canada (Alberta: 60%; BC:51%) are most likely to feel that their province contributes more than Newfoundland and Labrador. Moreover, at least one-fifth of residents in each of these provinces feel that Newfoundland and Labrador contributes *much less* than their own province (Ontario: 33%; Quebec: 31%; Alberta: 31%; BC: 22%).

By contrast, residents of the Maritime provinces, the Prairies (Saskatchewan and Manitoba) and the Territories are most likely to feel their province/territory contributes *the same amount* or *less* than Newfoundland and Labrador.

Figure 11 - Comparative Overall Contribution to Canada: Newfoundland and Labrador vs. Own Province/Territory



Question: Compared to the overall contribution made by your own province/territory to the rest of the country, do you think that Newfoundland and Labrador contributes... (READ LIST)

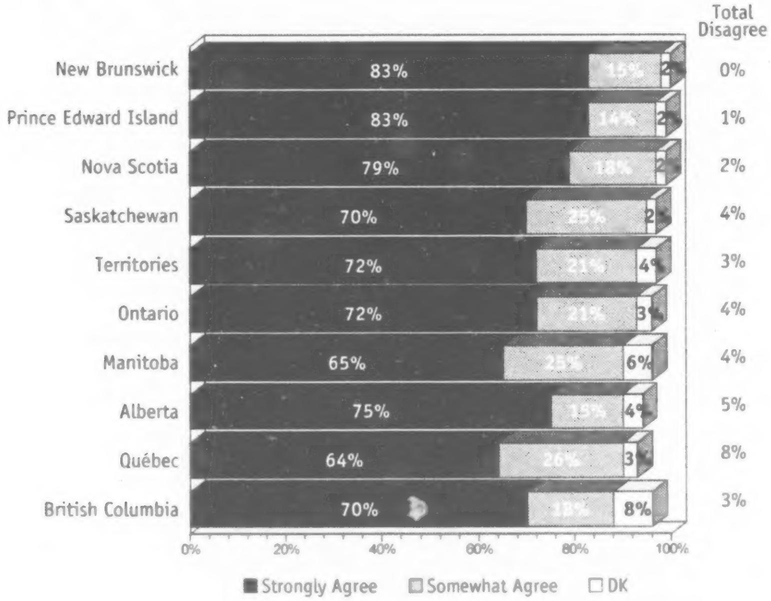
Comparing Own Province/Territory to Newfoundland and Labrador

The following section details Canadians' perceptions of Newfoundland and Labrador in comparison to their own province/territory in five specific areas. Overall this section finds that Canadians hold Newfoundland and Labrador in good standing relative to their own province or territory. However, Canadians – particularly those in the country's central and western-most provinces – perceive Newfoundland to be weaker economically and to lack influence with the federal government in relative terms.

Hardworking

In each province, almost all residents agree that *people from Newfoundland and Labrador work just as hard as people from their own province.* However, both overall and *strong* agreement with this statement is highest in the Maritime provinces.

Figure 12 - Comparing Newfoundland and Labrador to Own Province/Territory: Hardworking



Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE) People in Newfoundland and Labrador work just as hard as people from (INSERT RESPONDENT PROVINCE/TERRITORY).

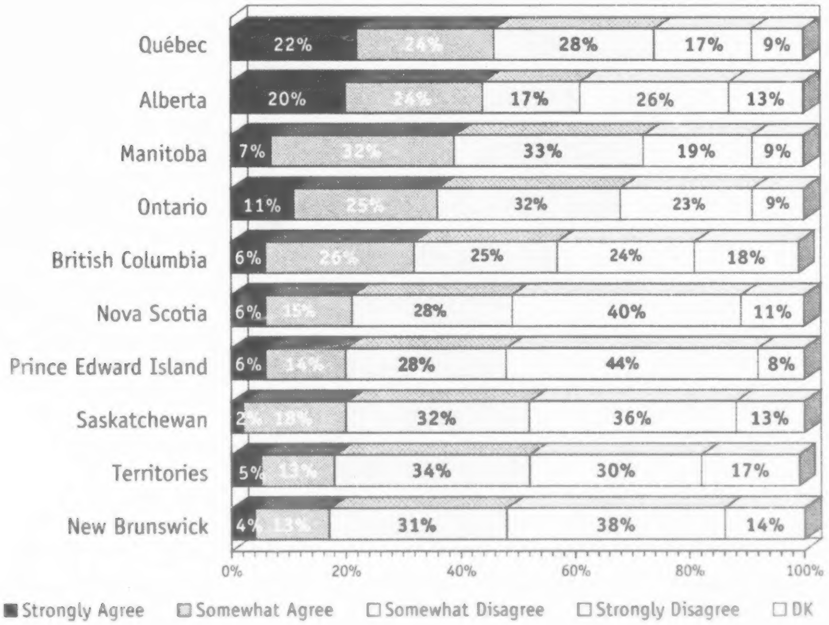
Burden on Canada

Less than half of people in each province/the Territories agree that *Newfoundland and Labrador is a greater burden on Canada than their own province/territory*.

However, reaction to this statement varies significantly by province/the Territories. Those most likely to agree with this statement include residents of Quebec (46%) and Alberta (44%), followed less often by Manitobans (37%) and Ontarians (36%). *Strong* agreement that *Newfoundland and Labrador is a greater burden* is also highest in these provinces.

Residents of the Maritime provinces are less likely to feel that Newfoundland and Labrador is a greater burden than their own province, with less than one-quarter of residents in each province agreeing with the statement.

Figure 13 - Comparing Newfoundland and Labrador to Own Province/Territory: Greater Burden

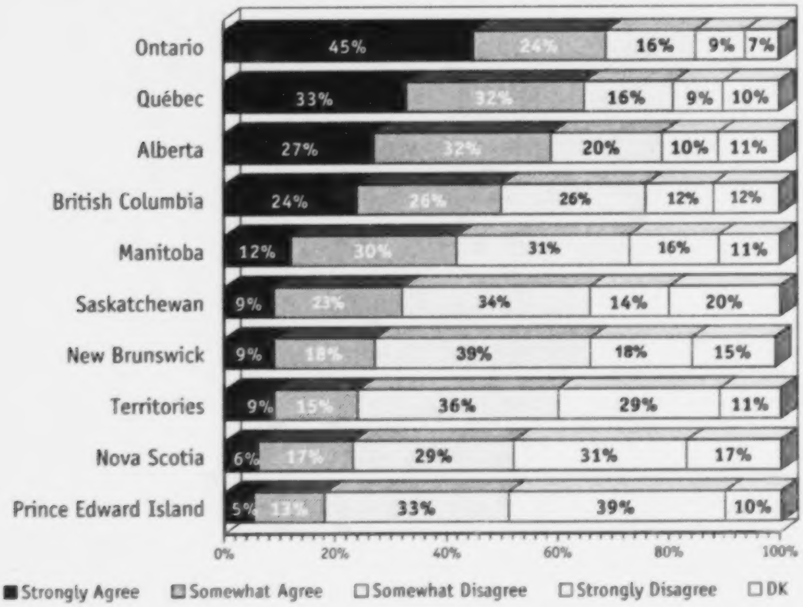


Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE) Newfoundland and Labrador is a greater burden on Canada than (INSERT RESPONDENT PROVINCE/TERRITORY).

Future Economic Strength

Central Canadians (Ontario: 69%; Quebec: 65%) and residents of the western-most provinces (Alberta: 59%; BC: 50%) are most likely to agree that *Newfoundland and Labrador will never be as economically strong as their own province.* Those least likely to agree with this statement include residents of the Maritimes (New Brunswick: 27%; Nova Scotia: 23%; PEI: 18%), and the Territories (24%).

Figure 14 - Comparing Newfoundland and Labrador to Own Province/Territory: Future Economic Strength



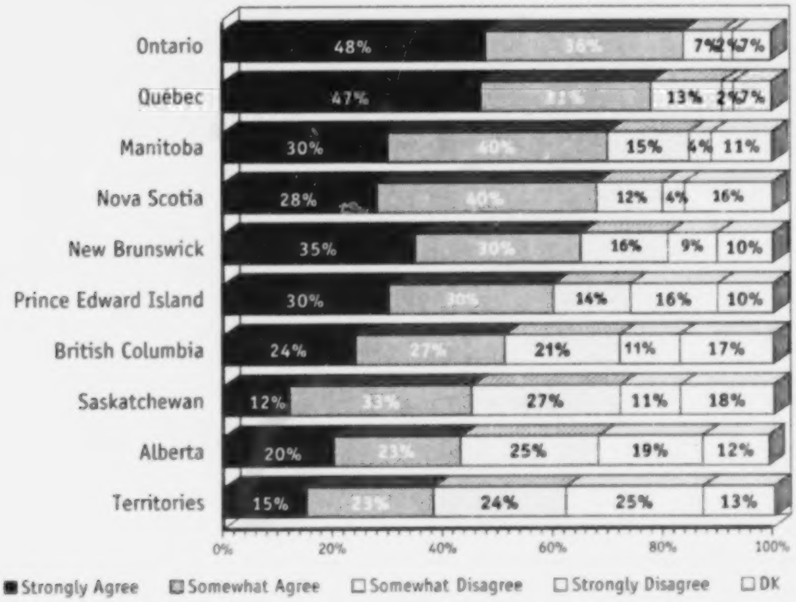
Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE) The economy of Newfoundland and Labrador will never be as strong as (INSERT RESPONDENT PROVINCE/TERRITORY)'s.

Dependence on Natural Resources

Central Canadians (Ontario: 84%; Quebec: 78%) are most likely to believe that *Newfoundland and Labrador's economy is more dependent on natural resources than their own.*

In contrast, western Canadians (BC: 51%, Alberta: 43%; Saskatchewan: 45%) and residents of the Territories (38%) are least likely agree that *Newfoundland and Labrador is more dependent on natural resources than their own economy.*

Figure 15 - Comparing Newfoundland and Labrador to Own Province/Territory: Dependence on Natural Resources



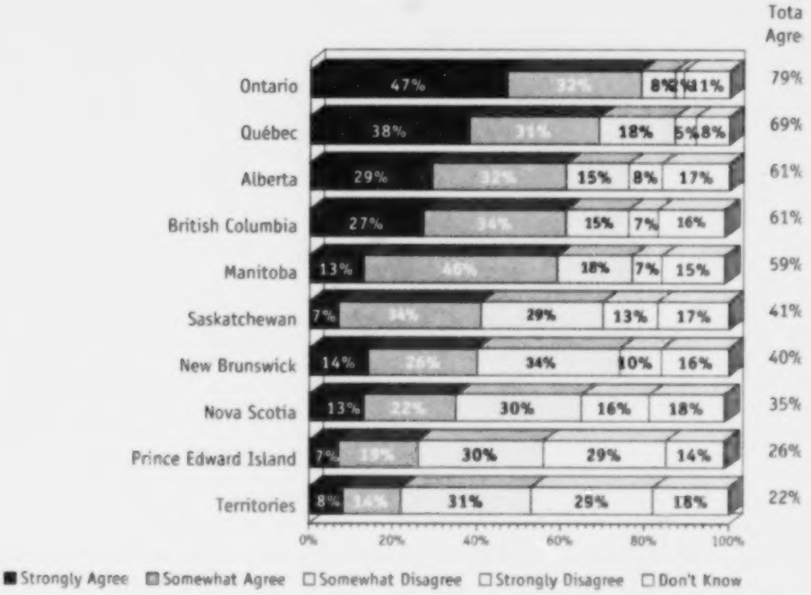
Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE) The economy of Newfoundland and Labrador is more dependant on natural resources than (INSERT RESPONDENT PROVINCE/TERRITORY).

Influence With Federal Government

Central Canadians (Ontario: 79%; Quebec: 69%) and residents of the western-most provinces (Alberta: 61%; BC: 61%) are most likely to agree that *Newfoundland and Labrador has less influence on the federal government than their own province.*

Those least likely to agree that they have *greater influence with federal powers than Newfoundland and Labrador* include residents of the Maritimes (New Brunswick: 40%; Nova Scotia: 35%; PEI: 26%) and the Territories (22%).

Figure 16 - Comparing Newfoundland and Labrador to Own Province/Territory: Influence With Federal Government



Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE) Newfoundland and Labrador has less influence with the federal government than (INSERT RESPONDENT PROVINCE/TERRITORY).

Half of Canadians who believe that Newfoundland and Labrador is *not* treated with respect by the federal government also *strongly* agree that their own province or territory has more influence with the federal government than Newfoundland and Labrador (47%). This compares to 28% of Canadians who believe Newfoundland and Labrador is treated respectfully, who also *strongly agree* that their own province/territory has more influence.

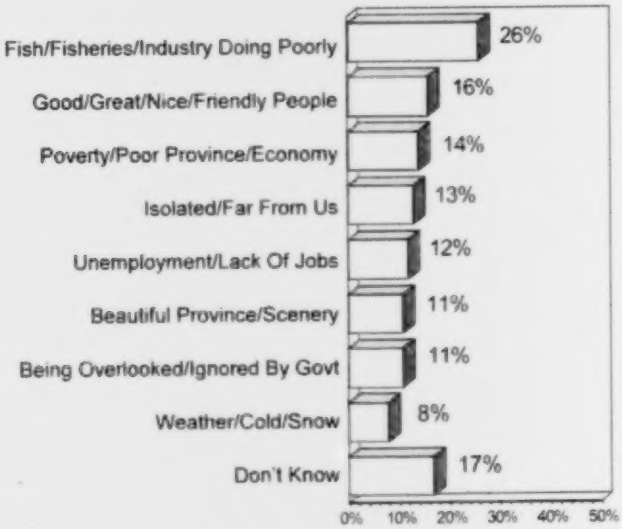
Top-of-Mind Impressions

Unaided Impressions of Newfoundland and Labrador and Its People

When asked what comes to mind when thinking about the province of Newfoundland and Labrador, 17% of Canadians are unable to think of anything, again confirming a widespread lack of familiarity with the province when asked to provide a response in their own words.

Canadians most often associate *fish/fisheries/ industry doing poorly* with Newfoundland and Labrador (26%). Less often, Canadians mention *good/nice friendly people* (16%), *poverty* (14%), *isolation* (13%), *unemployment* (12%), *being overlooked/ignored by the government* (11%), and *beautiful province/scenery* (11%).

Figure 17 - What Comes to Mind Regarding Newfoundland and Labrador and Its People



Question: Now I'd like you to think about the province of Newfoundland and Labrador. When you think about the province and its people, what comes to mind? (OPEN-END) (ACCEPT UP TO 3 RESPONSES)

Quebec residents are most likely to be unable to think of anything that they associate with Newfoundland and Labrador (25%).

Prairie residents- those in Manitoba and Saskatchewan – are most likely to associate the *failing fisheries* with Newfoundland and Labrador (36% each), while Atlantic residents commonly cite the province's *nice, friendly people* (PEI: 39%; Nova Scotia: 39%; and New Brunswick: 30%).

Table 25 - What Comes to Mind Regarding Newfoundland and Labrador and Its People, by Province/The Territories
(OPEN-END) (THREE MENTION)

	Fishing Industry Failing	Nice Friendly People	Poor Prov Economy	Isolated	Lack of Jobs	Ignored by Feds	Beautiful Prov/ Scenery	Don't Know
	%	%	%	%	%	%	%	%
Nova Scotia	20	39	13	6	10	6	6	10
New Brunswick	16	30	13	7	10	4	5	20
PEI	15	39	10	11	13	3	10	12
Quebec	24	8	18	22	12	13	12	25
Ontario	27	18	9	9	12	15	13	15
Manitoba	36	13	21	6	21	6	16	14
Saskatchewan	36	15	13	11	14	6	8	17
Alberta	21	17	17	10	15	5	8	18
BC	31	17	16	18	10	6	4	13
Territories	29	22	20	7	16	2	13	19

Question: Now I'd like you to think about the province of Newfoundland and Labrador. When you think about the province and its people, what comes to mind? (OPEN-END) (ACCEPT UP TO 3 RESPONSES)

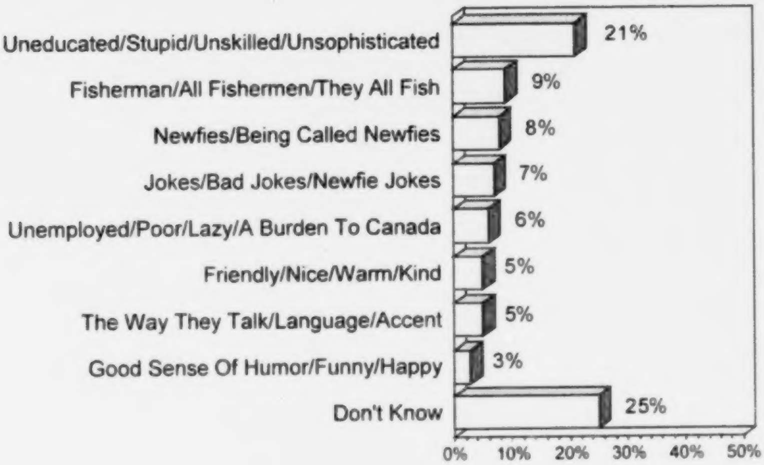
Stereotypes

One-quarter of Canadians are unable to identify a common stereotype about people from Newfoundland and Labrador on an open-ended basis (25% *don't know*).

The most commonly cited stereotype classifies people from Newfoundland and Labrador as *uneducated/stupid/unskilled/ unsophisticated* (21%). Other stereotypes offered by Canadians include the belief that people from Newfoundland and Labrador are all *fishers* (9%), that they tend to be *unemployed/poor/lazy/a burden to Canada* (6%), *friendly/nice/warm/kind* (5%), and that they have *a good sense of humour* (3%).

General observations about the province and its people include the nickname *Newfies* (8%), *Newfie jokes* (7%), and *their accent/the way they talk* (5%).

Figure 18 - Most Common Stereotype About People From Newfoundland and Labrador



Question: What do you think is the most common stereotype about people from Newfoundland and Labrador? (OPEN-END) (ACCEPT ONLY ONE RESPONSE)

The stereotype that people from Newfoundland and Labrador are *uneducated/stupid/unsophisticated* is considered to hold the least truth, according to those who offer it (81% *not very much/no truth at all*).

By contrast, people who mention the following stereotypes tend to feel they hold at least some truth: that people from Newfoundland and Labrador tend to be *friendly/nice/warm/kind* (94% a lot/little bit of truth), that *they are all fishers* (75%), and they have *accents* (67%).

It is also important to note that two-thirds of those who offered *unemployed and lazy* as a stereotype believe it is at least somewhat true of the people of Newfoundland and Labrador (65%).

Table 26 - Extent to Which Stereotypes About People From Newfoundland and Labrador Hold Truth, by Stereotype

	A Lot/ Little Bit Of Truth	Not Very Much Truth/No Truth At All
	%	%
Uneducated/Stupid/Unsophisticated	19	81
All Fishers	75	25
Being Called Newfies	14	79
Jokes/Newfie Jokes	23	77
Unemployed/Poor/Lazy/Burden	65	30
Friendly/Nice/Warm/Kind	94	6
Accent/Way They Talk	67	33

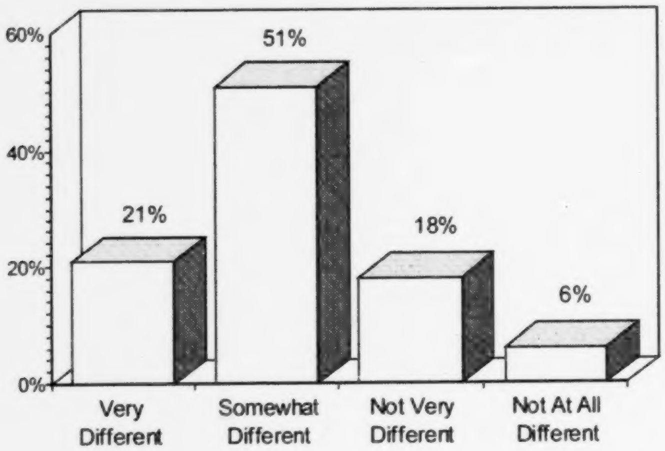
Question: What do you think is the most common stereotype about people from Newfoundland and Labrador? (OPEN-END) (ACCEPT ONLY ONE RESPONSE)

Attitudes Towards People of Newfoundland and Labrador

Extent to Which Newfoundland and Labrador's Culture Differs From Rest of English Canada

Canadians tend to view their Newfoundland and Labrador counterparts as culturally distinct from themselves. Specifically, over seven-in-ten Canadians (72%) feel that the culture of Newfoundland and Labrador is at least somewhat different from the rest of English Canada, including 21% who feel it is *very different*. One-quarter (24%) feels Newfoundland and Labrador's culture is *not very* (18%) or *not at all* (6%) different.

Figure 19 - Extent to Which Newfoundland and Labrador's Culture Differs From Rest of English Canada



Question: When you think about Newfoundland and Labrador, how different do you believe its culture is from the rest of English-speaking Canada?

There is no regional consensus on the extent to which the culture in Newfoundland and Labrador differs from the rest of English Canada. Those most likely to feel that the culture of Newfoundland and Labrador differs from the rest of English Canada include residents of Ontario (81%), the Territories (80%), Alberta (75%), and PEI (75%).

Not surprisingly, Quebec residents are least likely to feel that Newfoundland and Labrador's culture differs overall from the rest of English Canada (59%).

Table 27 - Extent to Which Newfoundland and Labrador's Culture Differs From Rest of English Canada, by Province

	Very Different	Somewhat Different	Not Very Different	Not At All Different
	%	%	%	%
Nova Scotia	15	53	19	11
New Brunswick	13	50	28	6
PEI	22	53	18	6
Quebec	25	34	28	6
Ontario	22	59	11	4
Manitoba	20	48	24	4
Saskatchewan	8	61	22	8
Alberta	16	59	16	5
British Columbia	18	53	18	8
Territories	27	53	10	5

Question: When you think about Newfoundland and Labrador, how different do you believe its culture is from the rest of English-speaking Canada?

Canadians who have visited Newfoundland and Labrador are slightly more likely than those who have not to believe that its culture differs from the rest of English Canada (79% vs. 70% respectively). Similarly, those with family and/or friends in Newfoundland and Labrador are more likely than those without to feel the province's culture is different (79% vs. 70%).

Agreement with Statements About Newfoundland and Labrador, Its People, and Canadian Values

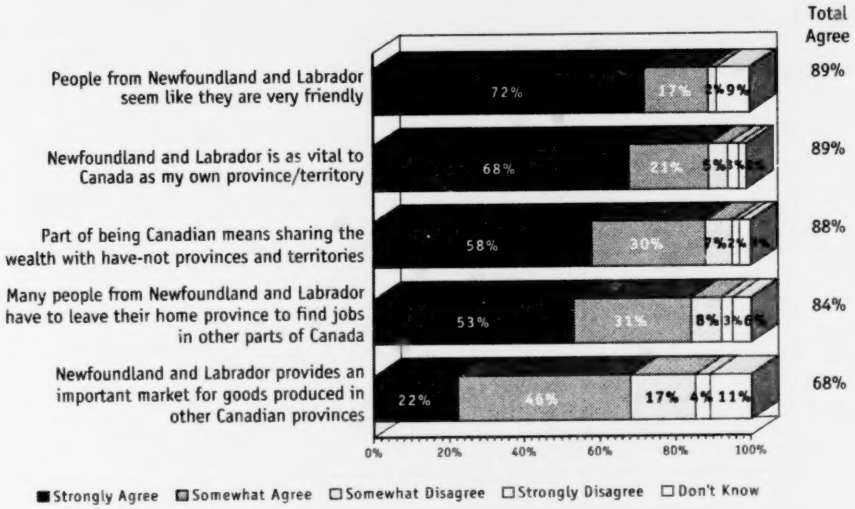
Respondents were read nine statements about Newfoundland and Labrador and its people and asked whether they agree or disagree with each.

Agreement is highest with statements about the importance of the province and kindness of its people. More than four-fifths agree that *people from Newfoundland and Labrador seem very friendly* (89% agree) and that *Newfoundland and Labrador is as vital to Canada as their own province/territory* (89%). These statements also garner the greatest proportion of *strong agreement*: over two-thirds each.

Canadians also acknowledge the province's loss of human capital, with 84% agreeing that *many people from Newfoundland and Labrador have to leave their home province to find jobs* (84%). However, Canadians accept the concept of distribution payments for provinces in need.

Specifically, Canadians overwhelmingly agree that *part of being Canadian means sharing the wealth with have-not provinces* (88%) and are unlikely to agree that *it is unfair that money from their own province/territory goes to people in Newfoundland and Labrador who don't have jobs* (32%) (see Figure 28B).

Figure 28A - Agreement with Statements About Newfoundland and Labrador, Its People, and Canadian Values

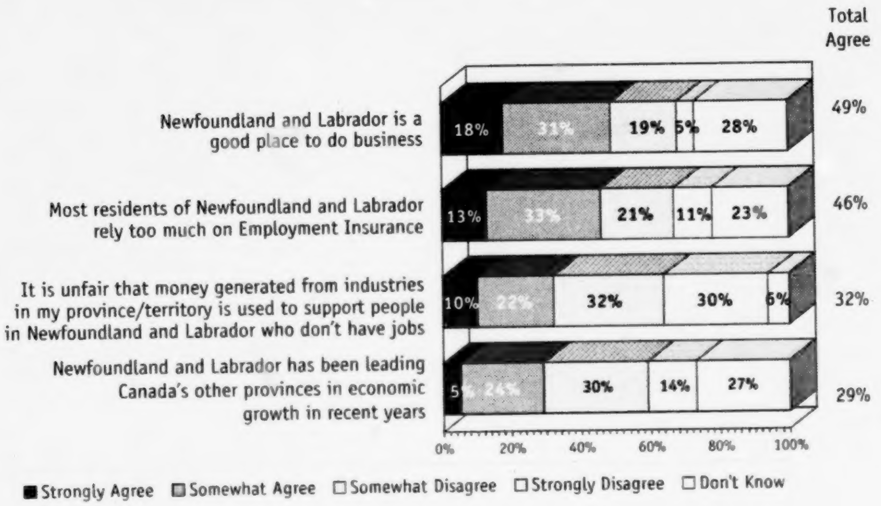


Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE)

Agreement and overall familiarity is seen to decline when considering Newfoundland and Labrador's economic situation. Of particular interest is the fact that more than one-fifth of Canadians *don't know* whether *Newfoundland and Labrador is a good place to do business* (28%), that *Newfoundland and Labrador is leading the provinces in economic growth* (27%) and *whether residents' rely too much on employment insurance* (23%).

As well, one-in-ten Canadians *don't know* if *Newfoundland and Labrador provides an important market for goods produced in other Canadian provinces* (11%).

Figure 28B - Agreement with Statements About Newfoundland and Labrador, Its People, and Canadian Values



Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE)

The following two tables illustrate the proportion of Canadians that agree with each statement and the proportion that are unable to respond, broken down by province/the Territories. These results are displayed over two tables due to space constraints.

Quebec residents are among the most likely to agree that *residents of Newfoundland and Labrador rely on EI too much* (48%) and that *it is unfair that money generated in Quebec goes to unemployed people in Newfoundland and Labrador* (37%). Meanwhile, Quebec residents are among the least likely to agree with each of the other statements. Furthermore, Quebec residents are more likely than average to *not know* whether *Newfoundland and Labrador are leading the provinces in economic growth* (30%) and whether *people from Newfoundland and Labrador seem very friendly* (18%).

Maritime residents are more likely than others to agree that *people from Newfoundland and Labrador seem very friendly*, that *Newfoundland and Labrador is a good place to do business*, and that *Newfoundland and Labrador is leading the provinces in terms of economic growth*.

Table 29 A- Agreement with Statements About Newfoundland and Labrador, Its People, and Canadian Values

	People From Nfld/Lab Seem Very Friendly	Nfld/Lab As Vital To Cda as Own Prov/Terr	Being Cdn Means Sharing W/ Have-Not Prov/Terr	Many Lv Nfld/Lab To Find Jobs	Nfld/Lab Impt Mkt For Goods From Other Prov/Terr
	%	%	%	%	%
Nova Scotia					
Total Agree	99	97	95	95	72
Don't Know	1	2	1	3	12
New Brunswick					
Total Agree	98	92	94	86	73
Don't Know	2	4	2	6	15
PEI					
Total Agree	99	98	94	97	75
Don't Know	1	1	1	2	9
Quebec					
Total Agree	79	85	79	74	59
Don't Know	18	3	4	8	11
Ontario					
Total Agree	93	89	90	85	72
Don't Know	5	1	2	4	9
Manitoba					
Total Agree	92	94	94	87	79
Don't Know	6	2	2	6	11
Saskatchewan					
Total Agree	89	96	96	89	74
Don't Know	11	1	1	8	15
Alberta					
Total Agree	89	92	87	89	68
Don't Know	9	3	2	5	15
British Columbia					
Total Agree	90	93	92	84	64
Don't Know	10	2	4	8	14
Territories					
Total Agree	99	94	94	92	72
Don't Know	0	1	3	3	16

Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE)

Table 29 B - Agreement with Statements About Newfoundland and Labrador, Its People, and Canadian Values

	Nfld/Lab Good Place To Do Business	Residents of Nfld/Lab Rely On EI Too Much	Unfair That Money From My Prov/Terr Goes To Nfld/Lab	Nfld/Lab Leading Provinces In Eco Growth
	%	%	%	%
Nova Scotia				
Total Agree	64	36	28	46
Don't Know	28	18		
3 25				
New Brunswick				
Total Agree	54	34	30	45
Don't Know	36	20	3	21
PEI				
Total Agree	66	47	30	42
Don't Know	29	7	4	19
Quebec				
Total Agree	43	48	37	24
Don't Know	25	20	6	30
Ontario				
Total Agree	53	32	30	29
Don't Know	24	22	5	27
Manitoba				
Total Agree	55	48	25	31
Don't Know	34	25	6	26
Saskatchewan				
Total Agree	53	32	30	26
Don't Know	36	33	11	30
Alberta				
Total Agree	45	48	40	29
Don't Know	35	25	6	25
British Columbia				
Total Agree	41	46	26	31
Don't Know	34	27	9	27
Territories				
Total Agree	49	39	25	36
Don't Know	35	19	8	25

Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE)

As the following table demonstrates, Canadians who feel that Newfoundland and Labrador gets *less than its fair share* in distribution payments from the federal government are most likely to *strongly agree* that *part of being Canadian means sharing the wealth with have-not provinces* (67%).

Furthermore, Canadians who believe that Newfoundland and Labrador receives *less than its fair share* are most likely to *strongly disagree* that *it is unfair that money generated in their province/territory goes to people in Newfoundland and Labrador who do not have jobs* (42%). Total disagreement is also highest among this group (69%).

Table 30 - Fairness of Transfer Payments to Newfoundland and Labrador, by Agreement With Statements About Distribution Payments

	Part of Being Canadian Is Sharing With Have-Not Provinces			
	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree
	%	%	%	%
More Than Fair Share	47	40	13	<1
About The Right Amount	54	35	7	3
Less Than Fair Share	67	21	8	2

	It is unfair that money generated in my province/territory goes to people in Newfoundland and Labrador who do not have jobs			
	Strongly Agree	Somewhat Agree	Somewhat Disagree	Strongly Disagree
	%	%	%	%
More Than Fair Share	8	31	46	15
About The Right Amount	14	27	31	24
Less Than Fair Share	9	19	27	42

Question: For each of the following please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. (READ AND ROTATE)…It is unfair that money generated from industries in my province/territory is used to support people in Newfoundland and Labrador who don't have jobs/Part of being Canadian means sharing the wealth with have-not provinces and territories.

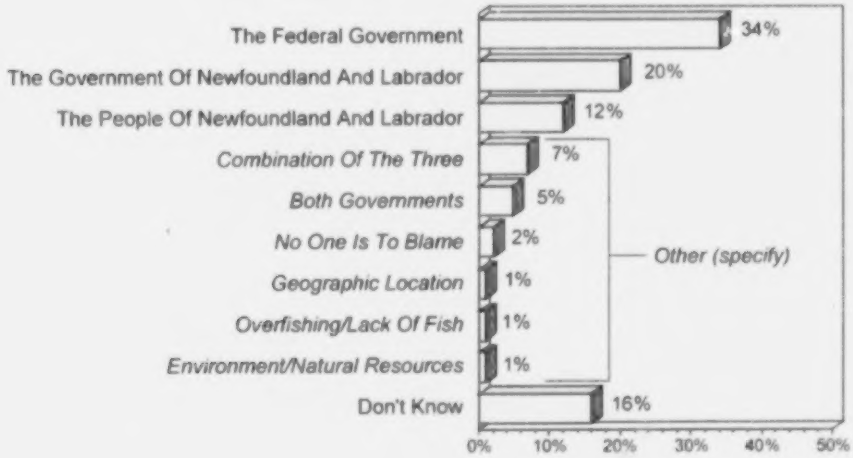
And thinking about this money, do you think that Newfoundland and Labrador receives ...(READ LIST)

Responsibility For Newfoundland and Labrador's Economic Problems

A plurality of Canadians feels that *the federal government* is most responsible for Newfoundland and Labrador's economic problems (34%). Less often, Canadians identify the *government of Newfoundland and Labrador* as being most responsible (20%), followed by *the province's people* (12%).

Sixteen percent of Canadians do not know who is most responsible for Newfoundland and Labrador's economic problems.

Figure 21 - Who is Most Responsible for Newfoundland and Labrador's Economic Problems



Question: Who do you think is most responsible for Newfoundland and Labrador's economic problems? (READ AND ROTATE)

Those most likely to hold the *federal government* responsible include residents of Nova Scotia (45%) and Manitoba (40%). By contrast, Ontarians are least likely to attribute Newfoundland and Labrador's economic problems to the *federal government* (29%).

Table 31 - Who is Most Responsible for Newfoundland and Labrador's Economic Problems, by Province/Territory

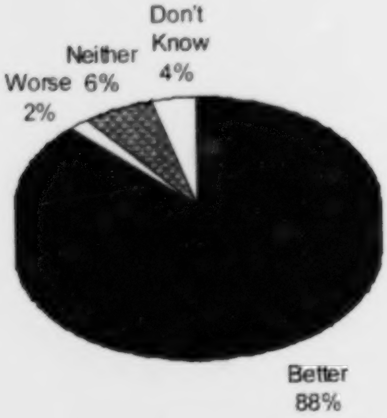
	Federal Government	Government of Newfoundland & Labrador	People of Newfoundland & Labrador	Don't Know
	%	%	%	%
Nova Scotia	45	17	6	8
New Brunswick	34	23	12	12
PEI	37	22	9	14
Quebec	36	18	15	16
Ontario	29	19	11	19
Manitoba	40	21	6	15
Saskatchewan	39	12	10	21
Alberta	35	23	14	12
British Columbia	38	24	10	12
Territories	37	20	11	18

Question: Who do you think is most responsible for Newfoundland and Labrador's economic problems? (READ AND ROTATE)

Canada Better or Worse With Newfoundland and Labrador Member of Confederation

Canadians overwhelmingly feel that Canada is *better* with Newfoundland and Labrador as a member of Confederation (88%). Only 2% of Canadians feel that Canada is *worse* with Newfoundland and Labrador, and 10% do not take a position on the issue (6% *neither*; 4% *don't know*).

Figure 22 - Canada Better of Worse With Newfoundland and Labrador Member of Confederation



Question: All things considered, do you think that Canada is a better or worse place with Newfoundland and Labrador as a member of confederation?

Quebec residents are least likely to feel that Canada is a better place with Newfoundland and Labrador as a member of Confederation (71%) and more likely than other provinces to not take a position on the issue (24%).

Residents of Saskatchewan are also unlikely to take a position (15%), but are still likely to feel that Canada is a better place with Newfoundland and Labrador as a member of Confederation (84%).

Table 32 - Canada Better of Worse With Newfoundland and Labrador Member of Confederation

	Better	Worse	No Position
	%	%	%
Nova Scotia	92	2	6
New Brunswick	91	1	8
PEI	94	2	4
Quebec	71	5	24
Ontario	96	1	3
Manitoba	95	1	4
Saskatchewan	84	2	15
Alberta	91	1	8
British Columbia	91	2	7
Territories	90	2	9

Question: All things considered, do you think that Canada is a better or worse place with Newfoundland and Labrador as a member of confederation?

Canadians with friends and/or family in Newfoundland and Labrador are more likely than those without to feel that Canada is a better place with the province as a member of Confederation (96% vs. 85% respectively). Similarly, Canadians who have visited Newfoundland and Labrador are more likely than those who have not to feel that Canada is better including the province (94% vs. 87%).

Attitudes Correlated With the Perception That Newfoundland and Labrador Is a Burden on Canada

The statistical technique of multivariate regression analysis was used to determine the strength with which various attitudes are correlated with the perception that *Newfoundland and Labrador is a greater burden on Canada than a respondents' province or territory*. That is, regression demonstrates the extent to which people who agree with Statement A also show likelihood to agree with Statement B.

Analysis reveals that the perception that Newfoundland and Labrador is *a greater burden on Canada than a respondents' province/territory* is highly correlated with the perception that *residents of the province rely heavily on employment insurance*, that *the province is not as self-sufficient as other provinces* and *that the province is generally more economically dependent on natural resources than other provinces*. Those factors which are identified as having a strong negative relationship[7] with the perception of *Newfoundland and Labrador as a burden on Canada* include the view that *the province is as vital to Canada as other provinces*, that *its people are as hardworking as other Canadians* and that it is *leading the country in economic growth*. In the case of this last factor, previous analysis shows that knowledge of this fact is not widespread across the country, however, those who recognize this information appear to be influenced by it to disagree that *Newfoundland and Labrador poses a more significant burden to Canada than their own province*.

A full table of attitudes that are correlated with the opinion that *Newfoundland and Labrador is a greater burden on Canada than my own province/territory* and their corresponding coefficients can be found in Appendix A.

---

[7] Having a negative relationship refers to obtaining a negative coefficient in the regression analysis. Specifically, the more likely Canadians are to agree with these attitudes, the less likely they are to hold the perception that *Newfoundland and Labrador is a burden on the country*.

Attitudes Correlated With the Perception That Newfoundland and Labrador is as Vital to Canada as My Own Province/Territory

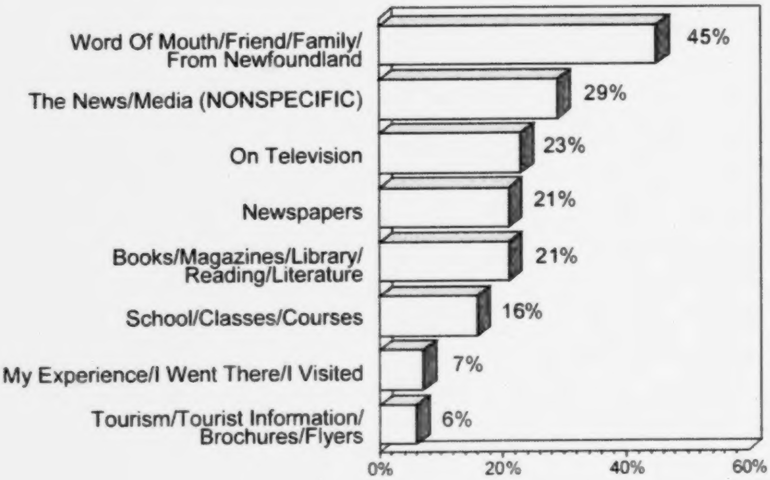
Multivariate analysis reveals four attitudes in particular which are correlated with the perception that *Newfoundland and Labrador is a vital part of Canada*. The strongest of all is agreement with the "Canadian" notion that *part of being Canadian means sharing the wealth with have-not provinces*. Also influential in viewing *Newfoundland and Labrador as a vital part of Confederation* is the perception that *the province represents an important market for goods produced in other provinces* and that *residents of the province are as hard working as those in other provinces*. Furthermore, the more Canadians agree that *Newfoundland and Labrador is a vital part of the country*, the more likely they are to disagree that *the province is a burden on the rest of Canada*.

Sources of Information About Newfoundland and Labrador

A plurality of Canadians gets most of their information about Newfoundland and Labrador through *word of mouth*, including *friends and family from the province* (45%). Less often, Canadians' information comes from the *news/media generally* (29%), *television* (23%), *books/magazines/library/ reading/ literature* (21%), *newspapers* (21%), or *school/classes/courses* (16%).

Less than one-in-ten Canadians mention *personal experience*, including *visiting the province* (7%), *tourism/tourist information/flyers/brochures* (6%), *personal knowledge/interest/research* (5%), the *Internet* (4%), *documentaries* (2%), *radio* (2%) or *government* (1%).

Figure 23 - Sources of Information About Newfoundland and Labrador



Question: (TOTAL MENTION) Thinking about everything you know about Newfoundland and Labrador, where did you get most of your information? (OPEN-END) (ACCEPT UP TO THREE RESPONSES)

Atlantic Canadians are particularly likely to get their information about Newfoundland and Labrador via *word of mouth* (Nova Scotia: 69%; PEI: 64%; New Brunswick: 59%), as are residents of the Territories (68%). Meanwhile, the rest of Canada is slightly more dependent on the *news/media* for information about the province.

Table 33 - Sources of Information About Newfoundland and Labrador, by Province/The Territories

	Word of Mouth Friend/Family From Nfld/Lab	News/ Media	Television	Books/Mags/ Library/Reading Literature	Newspapers
	%	%	%	%	%
Nova Scotia	69	20	14	13	13
New Brunswick	59	27	30	15	15
PEI	64	21	25	16	14
Quebec	25	26	34	17	26
Ontario	50	32	13	24	19
Manitoba	43	31	25	25	17
Saskatchewan	42	36	29	30	21
Alberta	55	27	27	22	20
British Columbia	48	30	26	18	21
Territories	68	22	24	17	11

Question: (TOTAL MENTION) Thinking about everything you know about Newfoundland and Labrador, where did you get most of your information? (OPEN-END) (ACCEPT UP TO THREE RESPONSES)

As one would expect, Canadians with friends or family in Newfoundland and Labrador are more likely than those without to report *word of mouth including friends and family in the province* among the ways in which they get information (29% vs. 1% respectively).

It is also not surprising that Canadians who have visited Newfoundland and Labrador are more likely than those who have not to cite *personal experience* among the ways in which they have acquired information about the province (66% vs. 38% respectively).

Table 34 - Sources of Information About Newfoundland and Labrador, by Exposure to Newfoundland and Labrador

	Word of Mouth/ Friend/Family In Nfld/Lab		Personal Experience/ Visited Nfld/Lab
	%		%
Friends/Family:		*Ever Visited Nfld/Lab:*	
Yes	29	Yes	66
No	1	No	38

Question: (TOTAL MENTION) Thinking about everything you know about Newfoundland and Labrador, where did you get most of your information? (OPEN-END) (ACCEPT UP TO THREE RESPONSES)

Appendix A:

Regression Analysis Tables of Results

Multivariate regression analysis is a technique that attempts to predict relationships of causality between different variables or attitudes. In the case of this research, responses to certain attitudinal measurements are used to predict whether respondents hold or reject other attitudes expressed in the study.

The correlation coefficients listed in the following tables are the result of regression analysis and denote the strength of the relationship between two variables. The tables list variables in order of strength. The stronger the relationship, the closer the coefficient will be to the absolute value of 1.0 (may be negative or positive). A negative coefficient indicates a negative relationship between the two variables in question. For example, in the following table, the coefficient of -.183 signifies that the more likely Canadians are to agree that *Newfoundland and Labrador is as vital to Canada as my own province/territory,* the less likely they are to hold the perception that *Newfoundland and Labrador is a burden on the country.*

The following table summarizes variables correlated with the view that *Newfoundland and Labrador is a Burden on Canada* and their respective coefficients.

Table A - Attitudes Correlated With the Perception That Newfoundland and Labrador is a Burden on Canada

Drivers	**Coefficient***
Most residents of Newfoundland and Labrador rely too much on Employment Insurance	.207
Newfoundland and Labrador will never be as self-sufficient as [my province]	.199
Newfoundland and Labrador is as vital to Canada as my own province/territory	-.183
People in Newfoundland and Labrador work just as hard as people from [my province]	-.119
The economy of Newfoundland and Labrador is more dependant on natural resources than [my province]	.096
Newfoundland and Labrador has been leading Canada's other provinces in economic growth in recent years	-.085

* *Coefficients are significant nineteen times out of twenty.*

The following table summarizes variables correlated with the view that *Newfoundland and Labrador is a vital part of Canada* and their respective coefficients.

Table B - Attitudes Correlated With The Perception That Newfoundland and Labrador is as Vital to Canada as My Own Province/Territory

Drivers	**Coefficient***
Part of being Canadian means sharing the wealth with have-not provinces and territories	.235
Newfoundland and Labrador provides an important market for goods produced in other Canadian provinces	.188
Newfoundland and Labrador is a greater burden on Canada than [my province/territory]	-.184
People in Newfoundland and Labrador work just as hard as people from [my province]	.113

* *Coefficients are significant nineteen times out of twenty.*

Appendix

COLLECTED RESEARCH PAPERS OF THE ROYAL COMMISSION ON RENEWING AND STRENGTHENING OUR PLACE IN CANADA

VOLUME 1

Melvin Baker, *History of Newfoundland and Labrador – Summary Chronology of Events*

Melvin Baker, *Falling into the Canadian Lap: The Confederation of Newfoundland and Canada, 1945-1949*

Miriam Wright, *Newfoundland and Labrador History in Canada, 1949 - 1972*

Peter Gerald Bannister, *The Politics of Cultural Memory: Themes in the History of Newfoundland and Labrador in Canada, 1972-2003*

Stephen May, *The Terms of Union: An Analysis of Their Current Relevance*

Maura Hanrahan, *The Lasting Breach: The Omission of Aboriginal People from the Terms of Union Between Newfoundland and Canada and Its Ongoing Impacts*

Joanne Hussey, *The Changing Role of Women in Newfoundland and Labrador*

Gwynne Dyer, *The Strategic Importance of Newfoundland and Labrador to Canada*

Ross Reid, *We Can Do Better, We Must Do Better*

Gerard Blackmore, *St. John's, Sense of Place: Loss and the Newfoundland and Labrador Spirit*

Ryan Research and Communications, *Provincial Opinion Survey*

POLLARA, *National Poll - Newfoundland and Labrador's Place in Canada*

Volume 2

Roger Gibbins, *Assessing Newfoundland and Labrador's Position on Canada's Evolving Federalism Landscape*

Christopher Dunn, *Federal Representation of the People and Government of Newfoundland and Labrador*

Stephen Tomblin, *Atlantic Region Integration Options*

Denis Stairs, *The Conduct of Canadian Foreign Policy and the Interests of Newfoundland and Labrador*

Donald J. Savoie, *Reviewing Canada's Regional Development Efforts*

Raymond B. Blake, *Regional and Rural Development Strategies in Canada: The Search for Solutions*

Robin Boadway, *Options for Fiscal Federalism*

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P. J. Gardiner Institute for Enterprise and Entrepreneurship, *Built to Last: Entrepreneurial Success Stories of Newfoundland and Labrador*

David G. Norris, *The Fiscal Position of Newfoundland and Labrador*

Royal Commission on
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Newfoundland and Labrador

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Newfoundland and Labrador

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 2

June 2003

Foreword

This volume forms part of a four volume set, containing the research papers and polls contracted by the Royal Commission on Renewing and Strengthening Our Place in Canada. The Commission's main report and a summary report are available at the Office of the Queen's Printer, Confederation Building, St. John's, Newfoundland and Labrador, Canada, A1C 5T4. The summary report is available in English, French, Inuktitut, Innu-aimun, Mi'kmaq and Braille. All of the Commission's published materials, including research papers and polls, are also available at the web site: *www.gov.nl.ca/royalcomm.*

The Commission's Terms of Reference called for a research program to address key issues. The goals of the research program were: (i) to provide information and an independent assessment of key issues in support of the analysis, conclusions and recommendations contained in the final Report; (ii) to generate fresh perspectives and new ideas on critical issues; and (iii) to provide the public with a body of information and analysis of important issues. The nature and extent of the Commission's research program were shaped by the Commission's short mandate of approximately one year.

Most of the research contracted by the Commission consisted of research and analysis papers designed to provide a thematic overview of the issue to be addressed, a review of existing literature, an analysis of the state of knowledge on the issue, conclusions and, where relevant, policy options or recommendations for consideration by the Commission. A smaller number of research projects were more extensive and more original in research scope, including financial and economic analyses, polls and other surveys. In addition, the Commission contracted independent commentaries from a number of authors; these are also included in these collected papers. Most of the externally contracted research was subject to peer review. Since the papers are collected in four volumes, a full list of the 28 published papers and two public opinion polls is contained as an appendix to this volume.

The analyses contained in these published papers remain the responsibility of the authors, and the views expressed do not necessarily reflect those of the Commission.

The Commission expresses thanks to the authors for undertaking their important work in a professional manner, within the constrained time-frames of the Commission's mandate. We wish to acknowledge and thank those persons who provided independent peer review of the research papers. Overall, the research program made an important contribution in shaping the Commission's understanding of the issues and the development of its recommended Pathway to Renewal founded on a new partnership between the federal and provincial governments.

Victor Young, O.C. Chair	Elizabeth M. Davis, RSM Commissioner	Hon. James Igloliorte Commissioner

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 2
Table of Contents

Foreword iii
Notes on Authors vii

Collected papers:

Roger Gibbins
    Assessing Newfoundland and Labrador's Position on Canada's Evolving Federalism Landscape 1
Christopher Dunn
    Federal Representation of the People and Government of Newfoundland an Labrador 23
Stephen Tomblin
    Atlantic Region Integration Options 107
Denis Stairs
    The Conduct of Canadian Foreign Policy and the Interests of Newfoundland and Labrador 147
Donald J. Savoie
    Reviewing Canada's Regional Development Efforts 189
Raymond B. Blake
    Regional and Rural Development Strategies in Canada: The Search For Solutions 227
Robin Boadway
    Options for Fiscal Federalism 265

Appendix 311

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Assessing Newfoundland and Labrador's Position on Canada's Evolving Federalism Landscape

— Roger Gibbins

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 5
Demographic Landscape 6
Political Dynamics of Canadian Federalism 7
Changes to the Constitutional Framework of the Canadian Federal State 9
Changes to the Institutional Framework of the Canadian Federal State 11
Programmatic Federalism 13
Newfoundland in the Contemporary Canadian Federal State 16
Conclusion 18

Bibliography 21
About the Author 21

Introduction

Canada has changed dramatically in the nearly 54 years since Newfoundland joined Confederation. Our population has more than doubled, prosperity has increased dramatically, continental integration has advanced substantially, and there have been profound changes in social values. It should come as no surprise, therefore, that Canadian federalism has also evolved since 1949. The objective of this submission to the *Royal Commission on Renewing and Strengthening Our Place in Canada* is to sketch the nature of that evolution, and to assess whether it has worked to the advantage or disadvantage of the province and people of Newfoundland and Labrador.

In broad strokes, the picture that will emerge is one of a new federal order that provides a better system of national governance than the one Newfoundland embraced in 1949. Although the province's relative economic position in Canada has not greatly improved, and indeed in some respects has declined, the federal system itself has evolved in a direction that generally supports the interests and aspirations of Newfoundland and Labrador.

The submission is comprised of six sections:

- The first will outline background changes in the country's demographic landscape, with particular attention to those with greatest relevance to the nature of Canadian federalism.
- The second will briefly identify a number of changes in the political dynamics of the Canadian federal state.
- The third will examine how the constitutional framework of the Canadian federal state has been adjusted in the light of demographic and political change.
- The fourth will explore how the institutional framework of the Canadian federal state has responded to environmental change.
- The fifth will discuss how the programmatic characteristics of Canadian federalism have evolved.
- The final section will provide both a summary of evolutionary changes since 1949, as they relate to Newfoundland and Labrador's place in Canada, and a prognosis of what we might expect in the years ahead.

As will be seen, *although Newfoundland and Labrador has not been a primary driver of change in the nature of Canadian federalism, it has been a net beneficiary.*

Before turning to the meat of this discussion, it is important to note a number of caveats. First, although the evolution of Canadian federalism has been extensive and complex, the objective of this analysis is not to capture the detail of that evolution. Rather, the focus is on its broader characteristics and implications for Newfoundland and Labrador. Second, my own understanding has inevitably been shaped by my career location as a political scientist at the University of Calgary. As a result, western Canadian interpretations of federalism will undoubtedly loom larger than they might for other scholars. Third, it should be noted that because federalism is so ubiquitous in Canadian politics, flowing as it does into virtually every nook and cranny of political life, there is an inevitable tendency for discussions of federalism to be all-inclusive and thus overly ambitious. I will try to limit my remarks to the core of federalism: the relationships between the national and provincial governments in Canada, and the constitutional and institutional contexts within which those relationships are forged.

Demographic Landscape

The demographic underpinnings of the Canadian federal state have changed in some important if not necessarily dramatic ways since Newfoundland joined Confederation. Table 1, which compares the regional composition of the Canadian population at the time of the 1951 and 2001 Censuses, shows there has been a gradual yet sustained shift in the regional distribution of the national population from Atlantic Canada and Quebec to the West and, particularly, to Ontario. This shift, however, has had little impact on the national *political* landscape. Quebec's demographic decline has not diminished its weight in national affairs, and the West's growth has not resulted in any discernible shift of political power to the region. It should also be noted that demographic shifts have been imperfectly reflected in the regional composition of the House of Commons. Grand-fathered seat allocations and a measured – some might say maddeningly slow – response to new Census counts ensure that diminished demographic weight does not lead quickly, or for that matter automatically, to diminished electoral weight.

Table 1: Canada's Demographic Profile, 1951 to 2001

	1951 Census	2001 Census
Atlantic Canada's % share of the national population	11.5	7.6
Newfoundland's % share of the national population	2.6	1.7
Quebec's % share of the national population	29.0	24.1
Ontario's % share of the national population	32.8	38.0
West's % share of the national population	26.5	29.9

Two important elements of demographic transformation are not captured in Table 1. The first is the growing ethnic and racial complexity of the national population, a result of changing patterns of immigration and the greater net impact of immigration as Canadian birth and fertility rates decline. The second is the increased political prominence of the Aboriginal population, a change attributable only in small part to demographic growth. Both elements have had a greater impact on the country as a whole than they have had on Newfoundland and Labrador.

What, then, are the federalism implications of this demographic transformation? In relative terms, Newfoundland and Labrador is a shrinking province within a shrinking region, and has a demographic character increasingly out of line with the national mainstream. At the same time, the federal system itself ensures that these changes will not seriously erode Newfoundland and Labrador's position within Confederation. Put somewhat differently, federal institutions provide an effective although not impermeable line of defence in the face of demographic decline.

Political Dynamics of Canadian Federalism

Federal politics, and ultimately the constitutional and institutional frameworks of federal states, are buffeted by broader political dynamics. What, then, have been the major changes in political dynamics since Newfoundland joined Confederation? Although the potential list is endless, five have the greatest relevance for federalism: the rise of the nationalist movement in Quebec, the growth of regional discontent in western Canada, the transformation of the national party system, the rise of Aboriginal nationalism, and increased continental integration with the United States. Of the five, the rise of the nationalist movement in Quebec goes most directly to the character of the Canadian federal state.

Within the context of this report, little space can be allocated to a detailed history of the nationalist movement in Quebec and its enormous impact on Canadian federalism. Suffice it to say that Quebec's place in Canada, or potentially outside Canada, was *the* national question from the early 1960s through the mid-1990s. The complex constitutional process that Canadians experienced was driven almost entirely by that question even if, ironically, the constitutional changes that did eventually occur reflected the values of other regions more than they reflected the constitutional values and aspirations of Quebec. The nationalist movement, spearheaded by both sovereigntist and federalist governments in Quebec City, challenged virtually the entire range of federal values of interest to Newfoundland including the formal equality of provinces, the programmatic capacity of the national government, and the definition of Canadian citizenship. Of particular concern was the drive for greater decentralization. There is no question that the prolonged constitutional process was a high stakes endeavour for the governments and people of Newfoundland, one in which both were thoroughly engaged.

By contrast, the growth of political discontent in western Canada was a more limited challenge for Newfoundland and the source of some opportunities. To a degree, of course, western alienation embodied a call for a transfer of political power to the West and, at least implicitly, away from other regions of the country. However, that call primarily took the form of a quest for institutional reform, one that challenged the Canadian Senate, party discipline within the House, and the concentration of power within the hands of the Cabinet and, more specifically, the Prime Minister. Although greater decentralization appeared occasionally on the regional reform agenda, it was not a dominant or consistent theme; the focus was more on exercising greater power at the centre – "The West Wants In" – than it was on moving the locus of power to provincial governments. As will be noted below, the reforms championed by western Canadians were far from hostile to the position of Atlantic Canada or Newfoundland within Canada. Indeed, the West's defence of both provincial equality and provincial ownership of natural resources, and concerns about federal intrusions into provincial jurisdiction, all resonated well within Newfoundland.

However, the western push for institutional reform was notably unsuccessful, and thus the primary consequence of regional discontent was the transformation of the national party system. This came first with longstanding regional alienation from the Liberal party and governments, and second with the creation of the Reform Party of Canada in 1986 and the recasting of Reform into the Canadian Alliance in 2000. As a consequence, although not by design, party politics have become polarized along regional lines, with no immediate change in sight. While one might argue that the result of this polarization has been the further isolation of western Canada and sustained discontent within the region, the transformation of the national party system may have enhanced the electoral importance of Atlantic Canada. Partisan gridlock in both the West and Ontario – the Liberals have few seats to lose in the West and virtually none left to win in Ontario - has meant that the swing seats that might determine future governments are most likely to be found in Atlantic Canada and Quebec. Partisan turmoil in the West, therefore, has not come at the expense of electoral clout for Atlantic Canada.

Although Aboriginal issues were scarcely on the political map when Newfoundland joined Confederation, this situation has changed dramatically. For a variety of reasons, including but by no means limited to the constitutional process and the growing role of judicial politics, Aboriginal issues have moved to the centre of Canadian political life. Determining how best to incorporate Aboriginal governments within federal principles and institutions has emerged as a daunting public policy question. However, until recently the effects of land claims, the impact of self-governing Aboriginal communities, and the complexities of urban Aboriginal issues were all greater outside Newfoundland and Labrador than they were within. While this transformation of the national political agenda did not leave Newfoundland and Labrador untouched (e.g., land claims and the evolution of the Innu first nation in Labrador), nor did it challenge the province's place in Canada or the federal mechanisms through which that place has been established and protected.

The fifth change in political dynamics has come through increased continental integration with the United States, a change marked by the 1988 Free Trade Agreement (FTA), the expansion of the FTA into the North American Free Trade Agreement (NAFTA) in 1992, and the dramatic increase in Canadian-American trade that has occurred over the last decade. On any measure, the Canadian culture, economy and society are more tightly integrated with the United States than was the case in 1949. And, with new continental security preoccupations in the United States, integration is more likely to wax than it is to wane in the years ahead. The growth of north-south trade has greatly outstripped the growth of inter-provincial trade in every region of the country, thus simultaneously weakening the economic "ties that bind" and strengthening the gravitational pull of the American economy. To date, however, continental integration has been the source of limited strain on the Canadian federal system per se, and few if any changes in the character of Canadian federalism can be traced directly to continental integration. The threat is more a potential one as growing north-south trade diminishes the relative importance of the east-west economic union, and as continental integration inevitably challenges Canadian public policies relating to regional economic development and social program delivery.

In summary, the Canadian political environment underwent huge change in the decades following Newfoundland's decision to enter Confederation. National unity issues came dramatically to the fore, regional conflict escalated, the ability of the national party system to knit the country together was thrown into question, Aboriginal peoples moved from the margins to the centre of national political life, and Canadian governments turned to address the growing reality if not necessarily the ideal of continental integration. The political change was so extensive, in many ways so profound, that the nature of Canadian federalism was inevitably affected. It is to the nature of that impact that we now turn.

Changes to the Constitutional Framework of the Canadian Federal State

The foundations of any federal state are to be found in its constitutional framework and the principles embedded therein. In the years following Newfoundland's entry into Confederation, the nationalist movement in Quebec placed the country's entire constitutional framework on the table: the division of powers, the equality of provinces versus a special constitutional status for Quebec, the amending formula, and federal institutions including the Supreme Court and Senate were all subjected to intense national debate. Yet, when the dust finally settled after innumerable conferences and reports, after the Constitution Act of 1982, the failures of the Meech Lake and Charlottetown Accords, and with the defeat of the Quebec referendum in 1995, not all that much had changed with respect to the basic constitutional framework of the Canadian federal state. True, the constitution had been patriated and a Canadian amending formula had been put into place, one that respected the formal equality of the provinces and denied a special role for Quebec. However, the constitutional division of powers was virtually untouched, and the Senate and Supreme Court were unaltered, as was Quebec's formal place within Confederation. By far the biggest change came with the introduction of the Charter of Rights and Freedoms, something that had never been part of the constitutional reform agenda pursued by nationalists in Quebec. It was the Charter, moreover, that captured important changes to the federal spirit in Canada.

How, then, does Newfoundland and Labrador fare in this new if not fundamentally transformed constitutional order? Although this is a difficult question to answer in any categorical fashion, my assessment is that the province's "place in Canada" has been strengthened:

- the new constitutional order reinforces rather than erodes the constitutional equality of the provinces, something of particular benefit for relatively small provinces.
- the principle of equalization and the need to address regional disparities have been embedded in section 36 the 1982 Constitution Act.
- the new amending formula has not posed a serious obstacle to bilateral constitutional changes that Newfoundland has pursued with respect to public schools and the name of the province.
- there has been no formal decentralization, and therefore no reduction in the federal government's program capacity.
- the Charter and the larger Constitution Act of which the Charter is a part give formal expression to a spirit of Canadian citizenship that recognizes the equality of citizens across the land. This recognition extends far beyond the equalization provision in section 36 of the Act – promoting equal opportunities for the well-being of Canadians – to the core equality provisions of the Charter itself.

Constitution Act, 1982, Part III:

> 36. (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the Government of Canada and the provincial governments, are committed to (a) promoting equal opportunities for the well-being of Canadians; (b) furthering economic development to reduce disparity in opportunities; and (c) providing essential public services of reasonable quality to all Canadians. (2) Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

I would argue that the 1982 Constitution Act, including the Charter, has had an impact on federal values that will serve Newfoundland and Labrador well in the years to come. It promotes a pan-Canadian vision of rights that provides a potent weapon for relatively have-not provinces in the design of federal programs. While the practical implications of section 36 have not been extensively tested in the courts, the fact that equalization payments and regional economic development are explicitly embedded in the value structure of Canadian federalism is of great importance in its own right.

The Charter specifically has had other effects that should work to the advantage of Newfoundlanders. By enhancing the role of the judiciary, and particularly the role of the Supreme Court, in the design and implementation of public policies, the Charter has enhanced the role of all national institutions in Canadian political life. If one were to argue, as I would, that the capacity of Ottawa to act on the spirit of section 36 would be weakened by *de jure* or *de facto* decentralization, then the Charter's role in bolstering the centrality of national institutions is important to note. In addition, the Charter promotes a non-territorial predisposition towards Canadian political life, one that emphasizes the shared rights and values of Canadians *regardless of where they happen to live*. In a paradoxical sense, the growing profile of non-territorial politics strengthens the claim Newfoundlanders are able to make on the national government, a claim for equal treatment within the framework of Canadian public policy. The admittedly contentious assumption here, and one to which I will return shortly, is that Newfoundland and Labrador would not be well served by greater decentralization and a weakened national government, and thus that the centralizing tendencies of the Charter work to the advantage of provincial residents.

Newfoundland and Labrador's position on the new, post-1949 constitutional landscape reflects a more general paradox. For roughly 30 years, beginning with the Quiet Revolution, Canadians and their governments wrestled with defining Quebec's place in Canada. True, other provinces and other groups brought their concerns and values to the constitutional table, as Newfoundlanders did with vigor, but the table was only there because of the need to answer that most basic question: what does Quebec want? In the final analysis, however, the new constitutional framework captures the constitutional visions of Atlantic Canada (section 36), Aboriginal peoples (sections 25 and 35), francophones outside Quebec (sections 16 through 23), western Canadians (the amending formula), multicultural communities (section 27), and

English Canadians at large (the Charter in its entirety) far better than it captures the values and aspirations expressed across the nationalist spectrum in Quebec.

I would conclude, therefore, that the people and province of Newfoundland and Labrador were well-served by a constitutional process that was not of their making and over which they had limited control. More generally, to the extent that Canada's constitutional framework has evolved since 1949, it has evolved in a direction that protects the place of Newfoundland and Labrador within Canada.

Changes to the Institutional Framework of the Canadian Federal State

The institutional framework of the Canadian federal state – Parliament, the Supreme court, the maze of intergovernmental relations – was subjected to an extensive critique throughout the constitutional debate on Quebec's place in Canada. Western Canadians, backed at times by the Atlantic premiers, championed Senate reform while Quebec sought changes to the appointment procedures for the Supreme Court. House of Commons reform was contemplated, in part to address regional imbalance in the national party system and in part to offset potential changes in the Senate. Intergovernmental relations were also on the table as Canadians contemplated changes to Quebec's place in Canada, and to the Senate and House. In short, the entire institutional framework was up for grabs from the mid-1960s to the mid-1990s.

In the end, however, very little changed. The composition, rules and procedures of the House of Commons were virtually untouched. Party discipline, Cabinet secrecy and Prime Ministerial control have if anything strengthened, and the principle of equality of representation within the House has been further eroded. Although the Senate was the most common target for reform, it too has been unchanged except for the adoption in the 1960s of compulsory retirement for Senators at age 75 and a diminished capacity to block its own constitutional reform. The Senate remains un-elected, unequal and ineffective. The composition of and appointment procedures for the Supreme Court are also unchanged despite the fact that the Court's place in the Canadian political universe has been greatly enhanced by the Charter of Rights and Freedoms. The electoral system for the House remains untouched in its basic principles and operations. In short, nearly five decades of institutional reform debate have produced little in the way of reform. Certainly the institutional reform agenda pushed so vigorously by western Canadians has come to naught. A great deal of sound and fury has, in the final analysis, 'signified nothing.' Canada remains a deeply conservative country when it comes to the institutional organization of political life.

But what has this lack of reform meant for the place of Newfoundland and Labrador in Canada? Has the province been the victim or beneficiary of the failure of all comers to dislodge the institutional status quo? A firm answer is difficult because we are dealing unavoidably with hypotheticals. For instance, would Newfoundland and Labrador be better served by the Triple E Senate – elected, equal and effective – promoted so vigorously by Alberta governments in the past? My hunch is that the province would indeed benefit from Senate reform, and therefore has been hurt by our national failure in this respect. It is interesting to note, for example, that a reformed Senate based on the principle of equal provincial representation would convey far more benefits on Atlantic Canada than it would on the West. In the former case, less than eight per cent of the national population would control close to 40 per cent of the Senate seats, whereas in the latter case close to 30 per cent of the national population would control close to 40 percent of the seats. Although the actual public policy impact of this regional distribution would depend on a host of other considerations, including the effectiveness of an elected Senate, there is no question that any move in the direction of Senate reform is likely to convey more benefits on Atlantic Canada than it would on the West. Alberta, with 9.9 per cent of the national population in 2001, would carry about the same weight in a Triple E Senate as it currently does in the House of Commons.

Even if we envision a reformed Senate based on a representational formula other than strict provincial equality, reform would still give disproportionate weight to small provinces such as Newfoundland and Labrador. Reform to make the Senate elected without such a representational bias in seats towards smaller provinces would make no sense for it would reinforce rather than offset the electoral dominance of Ontario and Quebec in the House of Commons.

Yet, while it is relatively easy to conjure up models of a reformed Senate that would convey significant benefits for Atlantic Canada in general, and for Newfoundland and Labrador in particular, it is by no means clear that the institutional status quo has been a problem for Newfoundland and Labrador, that it has been a serious obstacle to the realization of the province's potential and aspirations. A compelling argument has been made in western Canada that the existing institutional framework – a Senate poorly designed for the 19th century much less the 21st, rigid party discipline, the partisan polarization of the committee system, an electoral system that intensifies rather than moderates regional cleavages – works against regional interests and aspirations. Indeed, this argument has become a matter of faith in the West, beyond the need for empirical verification just as one does not have to set out each morning to prove, once again, that the earth is round. However, a parallel argument is more difficult to make for Newfoundland and Labrador. And, I suspect, it would be more difficult to draw the linkages between the economic and demographic challenges facing the province, on the one hand, and the nature of parliamentary institutions, on the other.

Things might be better in terms of institutional design, but they have not been bad. Newfoundlanders have not been particularly or especially disadvantaged by institutional design per se. This is not to say that Newfoundlanders have been consistently well served by national decision-making, an outcome that would be unlikely in any event given the province's electoral clout. It is simply to question whether institutional design lies at the root of the problem, as it is assumed to do within the populist creed in western Canada.

None of this is to suggest, of course, that Newfoundlanders do not share a *democratic* reform agenda with other Canadians. For example, the extreme concentration of power in the hands of the Prime Minister, an non-elected and unaccountable Senate, and an electoral system that consistently fails to reflect citizen preferences may cause as much democratic concern in St. John's as they do in Calgary. There is, however, a critically important difference. In the West, a populist critique of the existing institutional framework is tightly linked to, indeed in large part has been generated by, a regional critique. The western concern, in other words, is not just with the democratic impairment of Canadian political institutions, but also with the adverse *regional* effects of that impairment. The West, it is argued, is particularly disadvantaged by the institutional framework. In Newfoundland and Labrador, the second part of that equation is largely absent, and therefore the democratic critique alone carries less weight. Newfoundlanders may be hurt *as Canadians* by the democratic impairment of national institutions, but it is less clear that they are hurt *as Newfoundlanders*.

Thus, as the Canadian institutional reform debate died without so much as a whimper, much less a bang, it is difficult to argue that Newfoundland and Labrador has been hurt as a consequence. Indeed, when we turn to the policy mix that the existing institutional framework has generated over the past 50 years, a more appropriate conclusion may well be that the western Canadian crusade for institutional reform should hold little appeal for provincial residents. If, to use the old cliché, the proof is in the pudding, then the pudding cooked up by the existing institutional structure has not been at all bad.

Programmatic Federalism

Although changes in the constitutional and institutional frameworks of the Canadian federal state over the past 50 years have been relatively modest, or at least modest when placed against the concerted push for reform coming from both Quebec and the West, the changes in the nature of federal programming have been massive. Here I refer not only to programs that the federal government undertakes within its own legislative sphere of jurisdiction but also, and more importantly for the present analysis, to programs that the federal government undertakes in conjunction with provincial and territorial governments, including the entire gambit of federal-provincial relations. The changes in these respects have been almost revolutionary in their scope; the programmatic landscape of today bears only a passing resemblance to that of 1949. The changes, moreover, have generally strengthened Newfoundland and Labrador's "place in Canada."

Part of the change can be traced to the sheer increase since 1949 in the scope of government. When Newfoundland joined Confederation, for example, there was no publicly funded Medicare system, no Canada Pension Plan, Employment Insurance program, national firearms registration, federal investment in post-secondary education, Heritage Canada, or public support for athletics. Thus the federal system has had to accommodate both national and provincial governments that are doing much more than they did at the end of the Second World War. Not surprisingly, as the federal and provincial governments have expanded in scope, they have tended to become more and more entangled with one another. As a consequence, intergovernmental relations have become increasingly characteristic of and integral to the Canadian federal system.

Against this general backdrop, three changes stand out as being particularly important for the present analysis:

- the introduction of equalization payments from the federal government to provincial governments falling below the national average with respect to revenue generating capacity;
- the adoption of regional economic development as a policy objective for the federal government; and,

- the expanded use of federal spending power in fields of provincial legislative jurisdiction.

These changes, of course, were not tailored for Newfoundland alone, and their impact has been national. There is no question, however, that their specific impact on Newfoundland and Labrador has been profound.

A formal system of equalization was first introduced in 1950s, and since then has been expanded with respect to the magnitude of fiscal transfers and the range of revenues taken into account by the equalization formula. Although all provinces with the exception of Ontario and Alberta have been recipients of equalization payments, these payments have constituted a particularly important source of revenue for the Government of Newfoundland and Labrador, to the point where it is difficult to imagine where the province might have been over the past 40 years had they not been in place. However, the equalization system provides far more than a source of badly needed funds. It also represents a profound statement of federal values in Canada, one that declares that citizens are entitled to roughly the same level of public services paid for by the same level of taxes *regardless of where they might choose to live.* Although this was not a defining value of Canadian federalism at the time that Newfoundland joined Confederation, it has certainly become one. It is, moreover, a value that is virtually unchallenged. Even in Alberta, where provincial residents tend to view federal spending as a continual net drain on the provincial economy and taxpayers, equalization is seldom contested. Like publicly funded healthcare, it is seen as a defining Canadian value. In this context, the constitutional entrenchment of equalization in section 36 of the 1982 Constitution Act makes sense.

A related post-1949 development was the incorporation of regional economic development into the policy frameworks of national governments, both Liberal and Progressive Conservative. The assumption that the national government should play an active role in encouraging regional economic development led eventually to ACOA, and to significant financial transfers into Atlantic Canada. While other regions have also benefited to a degree from regional economic development programs, and here Quebec stands out, there is little question that Atlantic Canada in general, and Newfoundland in particular, have been beneficiaries. (Regional development expenditures in central Canada tend to be relabeled as *national* development priorities, a twist in phrase that does not preempt relatively massive expenditures.) It is worth noting, however, that regional economic development programs, despite being referenced in section 36 of the 1982 Constitution Act, are less thoroughly embedded in federal values than are equalization payments. They are contested from both inside and outside Atlantic Canada in terms of their effectiveness, a matter that cannot be pursued here. They are also challenged on ideological grounds by the Canadian Alliance, and are potentially open to challenge through international and continental trade agreements. Such programs should thus be seen as a more fragile gain than the principle of equalization, which is now firmly entrenched in both the constitutional order and federal values across the country. Indeed, this fragility is demonstrated by the decline in regional development spending since the early 1980s.

The third change, and quite likely the most important, has been the increased use of federal spending power in provincial fields of jurisdiction. The general expansion of the state in the wake of citizen expectations at the end of the Second World War, an expansion that rode the crest of a booming post-war economy, was led by Ottawa's funding involvement in healthcare, post-secondary education, and social assistance. Indeed, in the 1960s and early 1970s, Ottawa covered 50 per cent of provincial expenditures in these core areas of provincial jurisdiction. There is no question that without this greatly expanded federal role, the prosperity and security of Newfoundland residents would be much more exposed.

Federal intervention not only provided a source of revenue that would have been very difficult for have-not provinces to extract from their provincial tax base. Federal funding also frequently took into account regional differences in prosperity, and thus Newfoundland and Labrador benefited in excess to what might have been the case had federal spending been based on per capita criteria alone. While the use of the federal *spending power* has been contentious in Quebec, and has been questioned, although less extensively, in the West, it has worked well in Atlantic Canada.

Thus the expansion of the federal government over the past half century must be seen as one that has strengthened Newfoundland and Labrador's place in Canada, or at the very least one that has helped provide a standard of living for provincial residents that is closer to the national average than would otherwise have been the case. This is not to say, of course, that every federal program initiative has yielded net benefits to Newfoundland and Labrador. Nor is it to deny that there have been additional things that the Government of Canada should have done, but chose not to do. Furthermore, Government of Canada initiatives under its spending power have distorted provincial spending and program priorities as both have to adjust to federal rather than provincial priorities, a frustration shared by provincial governments across the country. Nonetheless, when we contrast the nature of federal spending and program activity in 1949 to that in 2003, there is no doubt that Newfoundland and Labrador is better served by the current arrangements, including those of a conditional nature. Indeed, one might make the argument that all Canadians are better served. This conclusion, however, only reinforces the particular benefits that Newfoundland and Labrador has derived from a radically transformed federal programming landscape.

Before leaving the discussion of programmatic change, a brief mention should be made of the Social Union Framework Agreement (SUFA), signed in 1999 by the Government of Canada and all of the provincial and territorial governments apart from Quebec. SUFA, it should be stressed, was not a constitutional initiative or document; indeed, it was brought forward to demonstrate to (largely indifferent) Canadians that federalism could be transformed without the trauma of constitutional amendment. Nor does SUFA incorporate any institutional change, apart from further entrenching intergovernmentalism as a defining feature of Canadian political life. However, the agreement does two things of particular interest to Newfoundland and Labrador. First, it provides a mechanism for the continued and quite likely expanded role for the Government of Canada in program areas falling within provincial fields of jurisdiction; SUFA provides legitimation for the federal spending power. This means, in part, an enhanced opening for federal funding, and thus the transfer of resources from the national community to Newfoundland and Labrador. Second, SUFA establishes complex networks of intergovernmental relations that should, given the formal assumption of provincial equality, provide disproportionate influence to relatively small provinces. Thus, while the long term effects of SUFA, if any, are by no means clear, the agreement appears to strengthen the general evolutionary direction of Canadian federalism since 1949, a direction that has strengthened the place of Newfoundland and Labrador in Canada.

Newfoundland in the Contemporary Canadian Federal State

From the perspective of an outside observer, Confederation has been an uncontestable gain for the province and people of Newfoundland and Labrador. There is also no question in my mind that over the past 50 years the Canadian federal state has evolved in a manner that strengthens rather than weakens the province's place in Canada. As stated at the outset of this report, *in broad strokes the picture is one of a new federal order that provides a better system of national governance than the one Newfoundland embraced in 1949. Although Newfoundland's relative economic position in Canada has not greatly improved, and indeed in some respects has declined, the federal system itself has evolved in a direction that generally supports the province's interests and aspirations.* The important changes have certainly not been institutional, nor for the most part have they been constitutional, although the value changes encapsulated in the Charter of Rights and Freedoms are a notable exception. The most important changes have come from programmatic developments within the Government of Canada. Here the equalization formula, regional economic development programs, and the use of the federal spending power in provincial fields of jurisdiction stand out.

However, given that the very real gains accomplished over the past 50 years have been brought about largely by broader political currents over which the people of Newfoundland have had little influence much less control, it is important to ask just how likely these gains are to persist. If, in a crude sense, the larger political process has given, could it not as easily take away? The fact that the most beneficial changes have been informal, and are thus open to challenge in a different partisan, ideological or inter-provincial environment, could be seen as a matter of concern. One could image, for example, a new national government that was ideologically opposed to intervention in the economy, and therefore hostile to regional economic development programs, and favoured a reduced role for the federal government in social programs. In this scenario, some of the gains over the past 50 years could be lost although the constitutional barriers that have been erected (e.g., section 36 of the 1982 Constitution Act) should deter any wholesale dismantling of those programs that have served Newfoundland and Labrador so well.

The more immediate challenge to the place of Newfoundland and Labrador in Canada may come less from partisan change in the national government than from the ongoing evolution of political dynamics within the country. Note, for example, the growing urbanization of Canada and the increased demand from municipal governments for a higher profile on the federalism landscape, indeed for some formal incorporation within federal mechanisms and institutions. This pressure is unlikely to abate in the near future, and in fact is likely to grow as cities become more tightly identified as the motors of the new, knowledge-based economy. The potential impact of this on Newfoundland and Labrador's place in Canada depends on how Ottawa decides to craft a new urban agenda. If "urban" is defined in big city terms – Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa – then Newfoundland may be marginalized within that agenda. If, however, the urban agenda is defined in more inclusive terms, ones that at the very least cover the largest city within each of the provinces and territories, then the threat of marginalization recedes. While some might argue that a big city strategy would better serve the Canadian economy than would an inclusive strategy, the political logic of Canadian federalism is likely to dictate the more inclusive path.

The second trend, and a much more uncertain one to forecast, is the retreat from fiscal conservatism. For whatever the reason, and surely the aftermath of 7/11 is part of the picture, Canadian governments seem less enthusiastic about the aggressive pursuit of deficit and debt elimination strategies. Coupled with this is the likelihood of increasing large fiscal surpluses for the national government in the years ahead as economic growth continues and some, albeit modest, progress is made on debt elimination. Faced with a growing imbalance between the fiscal capacity of the national government and continued financial constraints on provincial governments, Canadians are approaching an important fork in the fiscal road. One option is to finally redress the structural fiscal imbalance of Canadian federalism by restructuring the tax base to give greater capacity to provincial and perhaps even municipal governments. In short, revenues could be brought into line with constitutional responsibilities. The second option is to have Ottawa address this vertical fiscal imbalance by increased national program spending in areas of provincial (and municipal) responsibility. Here the historical odds clearly favour the second option, an expanded federal role in response to an improved budgetary situation. While one might argue that this second option is less respectful of the principles of federalism, it is also the option that best suits the interests and aspirations of Newfoundland and Labrador.

A closely related issue is the manner in which federal transfers to provincial and territorial governments are made. When the Canada Health and Social Transfer (CHST) was introduced in 1996, it appeared that the federal government was moving away from conditionality; funds were to go to the provinces in a general envelop, and the distribution of those funds was left to the discretion of provincial and territorial governments. This, I should stress, was the approach to the vertical fiscal imbalance in the Canadian federal state that is most congruent with federal principles. It is by no means clear, however, that the retreat from conditionality will continue. Conditional funding is inherently more attractive for federal politicians as it provides a better way of ensuring that the federal contribution to provincial programming is acknowledged in a visible way. In addition, the past and current Auditor Generals have been making a concerted argument that parliamentary accountability for fiscal transfers must be maintained, an argument that leads directly to conditional rather than unconditional transfers. Furthermore, the Romanow Royal Commission on healthcare reform has proposed that conditionality be restored with respect to fiscal transfers relating to healthcare; Mr. Romanow argues that provincial governments must be held accountable to Ottawa, and not just their own electorates, for federal funds spent on healthcare. More specifically, he proposes that the health component of the CHST be broken out so that the federal spending on healthcare is more visible, and so that provincial governments can be more readily held accountable.

When these arguments are taken together, it is likely that the improved financial circumstances of the federal government in the years to come will be matched with increased conditionality with respect to federal transfers to provincial and territorial governments. This is likely to be a double-edged sword for Newfoundland and Labrador. On the plus side, the return to conditionality is likely to come with more rather than less federal funding. On the minus side, it will also come with increased federal intrusion, and with a diminished capacity on the part of the provincial government to set its own programs and priorities. Whether this trade-off is appropriate will undoubtedly be hotly debated within the province.

Finally, it is worth asking whether significant challenges to the existing constitutional and institutional frameworks are on the horizon? Certainly Senate reform is still on the western Canadian agenda, but in all likelihood Newfoundland and Labrador will have been in Confederation for more than 100 years before any change might be expected on this front. Given considerable interest at the provincial level, particularly in British Columbia, there is a greater likelihood of significant change in terms of electoral reform, although even here the odds are long. It may be useful, however, to begin thinking through just what impact electoral change might have on the partisan composition of the House of Commons and thus on the programmatic predispositions of the national government. There is no question that electoral reform would have a major impact on Canadian political life, but just how that impact would ripple through to the place of Newfoundland and Labrador in Canada requires serious reflection.

There is also the possibility that political change in Quebec might reignite national debate over the nature of the federation. While the new Liberal government led by Jean Charest has displayed no interest in opening up the country's constitutional framework, its proposal for a new Council of the Federation should hold considerable interest for Newfoundland and Labrador. Such an innovation would have a direct and major impact on the character of intergovernmental relations, and with luck on the nature of federal intrusions into fields of provincial jurisdiction. The long-standing concerns of provincial governments with vertical fiscal imbalance and conditionality could well be addressed within such a body. Thus the renewed engagement in Canadian political affairs brought about by the recent change in government in Quebec is likely to encourage a national debate and eventually a forum within which Newfoundland and Labrador's discontent with the federal status quo could be addressed. In the years to come Quebec is more likely than it has been over the past 30 years to be an ally.

Conclusion

Since Newfoundland entered Confederation in 1949, the Canadian federal state has been substantially transformed. This transformation has touched the constitutional and institutional frameworks for Canadian federalism, and has had a dramatic impact on the activities of the Government of Canada. In general, the direction of this change has worked to the advantage of Newfoundland and Labrador. It is important to stress, however, that this favourable outcome was not the result of a case being made for provincial exceptionalism. To the contrary, Newfoundland and Labrador has benefited on the whole from broader processes of change driven by others and designed to meet national objectives rather than the specific circumstances of the province. In a sense, Newfoundland and Labrador has successfully ridden the waves of change generated by the broader national political environment.

But does this favourable assessment of Newfoundland and Labrador's position on the evolving federalism landscape mean that a case cannot be made for "better terms"? I would argue, to the contrary, that a case can be made, that there is still a need to examine the details of federal programming and its impact on the province, and that the province's active engagement in any emergent democratic reform agenda should be encouraged. Conditionality, vertical fiscal imbalance and spending power intrusions remain concerns. To say, therefore, that Newfoundland and Labrador has done well is not to conclude that existing political arrangements are beyond improvement. Indeed, I would argue that Newfoundland and Labrador's success to date comes from general changes in the Canadian political environment, which strengthens rather than weakens any argument for better terms. What is being sought is not exceptional treatment, but rather treatment that is fully consistent with national values and priorities as these have evolved since 1949.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Federal Representation of the People and Government of Newfoundland and Labrador

— Christopher Dunn

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

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Contents

Introduction 29

Concepts of Representation 30
  - **Territorialism and Representation Theory** 30
  - **Political Representation** 31
  - **Representative Bureaucracy** 31
  - **Reconciliation** 32

Theories of Federalism 33

The Evolving Role of the Function of Representation in Federal Institutions 34
  - **The Present Role of the Function of Representation in Federal Institutions** 34
  - **Literature on the Evolving Role of Representation in Federal Institutions** 40

Representation of Newfoundlanders and Labradorians in Federal Institutions Since 1949 46
  - **Proportionate Representation in Federal Institutions** 47
  - **Representation Without Power** 50
  - **The Secret Nation** 51

Survey of Major Options For Representation Reform 53
  - **Centralist Arrangements** 55
  - **Cooperative/Collaborative Federalist Arrangements** 56
  - **Intrastate Arrangements** 57
  - **Asymmetrical Arrangements** 58
  - **Third-Party or Hybrid Bodies** 58
  - **Method of Selection** 59
  - **Equality Versus Non-equality of Representation** 60
  - **Functions and Types of Powers of Upper Houses** 61
  - **Appointment Procedures** 62
  - **Provincial Involvement** 62
  - **Transparency vs. Obscurity** 63
  - **Enlarging the Supreme Court** 63
  - **Problems in Establishing the Provincial "Representativeness" of the Federal Bureaucracy** 64
  - **An Explicit Policy on Territorial Representation** 64

Conclusion and Recommendations 66
  - **The Changed Environment** 66
  - **The Basis of the Recommendations** 68
  - **Long-term Strategies** 69
  - **Short-term Alternatives** 70

Endnotes 75

Appendix 1: House of CommonsRepresentation Formula: Detailed Calculation for 2001 Census 81

Appendix 2: Regional Distribution of Federal Cabinet Ministers at the Beginning of Each Ministry **83**
Appendix 3: Arguments For and Against Regionalization of the Federal Court and the Tax Court of Canada **84**
Appendix 4: Region of Work for Departments and Agencies Coming Under Treasury Board Jurisdiction, March 2001 .... **87**
Appendix 5: Change in Level of Federal Employees1 By Department in Newfoundland and Labrador Since 1995 .... **88**
Appendix 6: Appointments to the Senate of Canada, Newfoundland and Labrador, 1949-2002 .... **90**
Appendix 7: Women Candidates in Federal Ridings in Newfoundland and Labrador, 1949-2000 .... **91**
Appendix 8: Women Elected to the Federal House of Commons From Newfoundland and Labrador Since 1949 .... **91**
Appendix 9: Regional Ministers of Newfoundland and Labrador, Reverse Chronological List, 1949-2002 .... **92**
Appendix 10: Federal Deputy Ministers Since Confederation (1867)Born in Newfoundland **94**
Appendix 11: Present and Former Judges of the Federal Court of Canada **95**
Appendix 12: Judges of the Tax Court of Canada **98**
Appendix 13: Institutions for Co-Decision in Australia Excerpted from Douglas M. Brown, Market Rules (Montreal, Kingston: McGill-Queen's, 2002) **99**
Appendix 14: Senate Composition Schemes, 1972-1990 .... **101**
Appendix 15: Variations in the Selection, Composition, Powers, and Role of Second Chambers in Federations, 1990s **102**
Appendix 16: Number of Members in Upper Houses in Federations Around the World **103**
Appendix 17: Estimated Expenditures by Province, Canada Only, Department of National Defense, 1996-1997 to 2000-2001 .... **105**
Appendix 18: DND Personnel, Regular, Civilian and Reserve by Province in Canada, 1996-1997 and 2000-2001 .... **106**

Introduction

The purpose of this paper, as is mandated in the terms of reference provided by the Royal Commission, is to provide an assessment of the various institutional and informal means by which the people and Government of Newfoundland and Labrador are represented in the institutions of the Government of Canada. This will necessitate a review of the recent literature on representation in federal institutions, studies of the pattern and significance of representation of or by Newfoundlanders and Labradorians since 1949 in federal institutions, a survey of the literature on major options for representation reform, and finally, conclusions and recommendations about the role that representation has and could play in terms of Newfoundland's ability to renew and strengthen its place in Canada.

The terms of reference appear to lend themselves to theoretical discussions of representation and federalism. Representation theory is not simple; there are a host of meanings to the term and as many implications which can be drawn from them. The paper reviews these, and also the legislative, executive - even judicial - forms through which representation takes place. As well, most reform ideas about representation in federal systems are built on theoretical assumptions about what the nature and purposes of federalism should be. If we are talking about the role of a province and its people vis-a-vis the federal government, we are talking about federalism. The task of this paper will be to assess which of the concepts of representation and federalism seem germane in the present endeavour.

There have been no lack of options for representation reform that have been touted both in Canada and in other federal states. This research and analysis paper will investigate some of them. The emphasis will be to identify "decision points" which emerge from the study of domestic and international federal systems. The concept of "decision points" is simply a technique for highlighting different options that the Commissioners may care to consider. This paper offers both the range of options available for various governing institutions, and assesses which may be most appropriate.

In 2002 the population of Newfoundland and Labrador was 531,595. The population of Canada was 31,413,990. This means that the people of the province formed only .0169222 of the population of the country - scarcely 1.7 per cent. What to do about this fact is the topic of this paper.

Concepts of Representation

The terms of reference note that the Commission is concerned with the representation of both the people and the Government of Newfoundland and Labrador. Representation of the people of the province implies that the federal bureaucracy be generally representative, and that federal institutions be responsive to their needs.[1] Representation of the government of the province implies that provincial interests can be expressed in a variety of intergovernmental and institutional forums and pressed to maximum advantage, keeping in mind the common weal that all Canadians seek. Representation of citizens implies a concern with political representation and representative bureaucracy, and representation of governments implies a concern with the search for theories, or approaches, to federalism. The terms of reference imply that there should be an injection of the "territorial element" into considerations of representation and national policy-making.

Territorialism and Representation Theory

The Royal Commission was right to choose territorial - in this case, provincial - representation to highlight as a research area. There are a number of reasons why. One is national unity. Paul Pross has noted that the federal government has privileged functionalist or occupational policy formation over territorially responsive institutions at the federal level, and therefore unwittingly encouraged the growth of regionalism. "The forces of federalism," he concludes, "have failed to co-opt the forces of regionalism. The pull of territorialism, represented by the provincial governments, has remained unexpectedly prominent."[2] Another is consistency. There have been calls for injecting territorial aspects into institutions of governance in constitutional packages reaching back as far as the Confederation of Tomorrow Conference of 1967. It would be churlish to suggest that there is not a foundation for such a history of discontent. Still another is that territorialism is already implicit in the founding or operation of most of the country's institutions, and many citizens feel the principle could be extended. Canada, as will be shown, has a regional Senate, a Grandfathered Commons representation, a Central-Canada-weighted Cabinet, a Supreme Court with two-thirds of its members from the two central provinces and other federal courts with Central Canadian-biased selection rules, a language-based criterion for part of its bureaucracy and other arrangements because of a need to be sensitive to the region/province of Quebec. The last and probably most obvious reason why regionalized/provincialized federal institutions need to be considered is that they have considerable employment implications, especially in the public service area. One of the candidates for the federal Liberal leadership, Sheila Copps, committed herself in April 2003 to a policy that federal decentralization be aimed to benefit areas of high unemployment in the country.

Political Representation

Representation has a long history both in political, electoral and bureaucratic arenas. Political representation is the oldest of the concerns of representation theorists. The following categories, based in a general way on the work of surveys by Hanna F. Pitkin[3] and A.H. Birch,[4] review some of the more common purposes of political representation. *Formalistic Representation* is the power to speak on behalf of another and to make commitments binding on the other as if the other had made them. *Descriptive Representation* is the greatest possible correspondence between the assembly and the nation, like a map is to a country's topography. *Symbolic Representation ("standing for")* means a person is a living representation of, or substitute for, in sum "stands for" a nation or a characteristic of it. *Representation as Representatives "acting for" constituents* defines representation by certain general behavioural norms or expected actions on the part of the representive: e.g. *trustee* (deputy as decision maker) and *delegate* (deputy as conduit for the majority's wishes) variants of this theory. *Representation as the furthering of interests* means the pursuance of personal interests, class interests, sectional interests, opinions, or those of political parties by representatives.

Representative Bureaucracy

The literature also makes a case for a separate discussion of representation in the realm of public administration. Most such discussions revolve around the notion of *representative bureaucracy*. Samuel Krislov says representative bureaucracy is worth studying because it provides a measure of the degree of citizen participation which the other branches of government cannot hope to emulate successfully, the bureaucracy emerging as a "good, even superior, index of societal cohesion and diffusion".[5] Canadian supporters of representative bureaucracy, reflecting on the power held by public servants in the political process, maintain "a public service which is representative of the total population will be more responsive to the interests of the general public and will therefore be more responsible."[6]

Theory in the bureaucratic area has had a shorter history, but its meanings, and implications, are as diverse as those in the political arena. J. Donald Kingsley originated the term *representative bureaucracy* in 1944[7], influenced by the struggle to change the class basis of the British administrative machine. A left-wing government, he said, both deserved and needed a bureaucracy whose background was similar to it, so that the latter would have "views...identical with those of the dominant class as a whole."[8] This had only tangential application to North America, and so was followed up with further refinements. Paul P. Van Riper defined a representative bureaucracy as a *broadly representative bureaucracy*, a kind of general mirror to society. "The term representative bureaucracy is meant to suggest a body of officials which is broadly representative of the society in which it functions, and which in social ideals is as close as possible to the grass roots of the nation."[9]

Another approach is to see representative bureaucracy as one featuring bureaucratic interlocutors, as does Frederick Mosher in one half of his famous dichotomy. *Active representativeness* is one wherein "individuals (or administrators) are expected to press for the interests and desires of those they are presumed to represent, whether they be the whole people or some segment of the people."[10] This concept of representation is similar to that of "representation as the furthering of interests" in the political category. It implies a kind of "answerability" to the group or people in question.

Passive or descriptive representativeness is the other half of the Mosher dichotomy. This type of representativeness "concerns the origin of individuals and the degree to which, collectively, they mirror the whole society. It may be statistically measured in terms of locality or origin, for example, and its nature (rural, urban, suburban), previous occupation, father's occupation, education, family income, family social class, sex, race, religion." Passive representation is a symbolic barometer of the degree of equality of opportunity which the bureaucracy affords to the general society. A school of thought related to this - *precisely representative bureaucracy* - holds that the makeup of bureaucracy should be as closely proportional to the most important sections of society, reflecting within itself aspects like class, gender, language, ethnicity and region.[11] It should be noted that region is one of the indices of descriptive or precise representation suggested here.

Reconciliation

The task, then, is to marry territorialism and representative theory. It seems logical to choose theories of *political representation* on the basis of historical practice. Historically, Newfoundlanders and Labradorians seem to have stressed the "delegate" and "furthering of interests" roles of their representatives more than any other. Smallwood chose federal Liberal candidates on the presumption that they would do his bidding, for example; and Wells supported the notion of "Triple-E Senate" reform on the presumption that it would further the economic development interests of this and other peripheral provinces.

If one is to choose among the theories of *representative bureaucracy*, logic dictates that contemporary practice in the federal and provincial bureaucracies be the guide. The current practice in Canadian public administration approaches that of Mosher's "passive/descriptive" representation. Canadians have grown used to measuring distributive justice for designated social groups according to relatively precise representation measures. One has only to think of the rigorous statistical measures that are employed in the federal employment equity and official bilingualism programs for proof.

Statistical representation, however, seems a rather sterile approach to public affairs. There are traditional values like accountability, neutrality, efficiency and effectiveness, integrity and responsiveness which should be accommodated.[12] Kernaghan maintains that *accountability* is the dominant value in contemporary public administration;[13] perhaps it is useful to see accountability to regional citizens - hence regional representation - as needing a higher profile. It may also be useful to add another value which is gaining wide acceptance, that of "transparency." This means that, to the greatest extent possible, all stages of the decision-making process, as well as the evidence used at each stage, be open to public view. In short, then, we can say that territorial (provincial) representation should be designed to enhance accountability to and transparency for the province's citizens.

Such will be the reasoning behind some of our later recommendations.

Theories of Federalism

As noted in the introduction, if we are talking about the role of a province and its people vis-à-vis the federal government, we are partly talking about federalism. Theories of federalism, then, become relevant to discuss, since one cannot take a stance vis-à-vis the federal government without utilizing some guiding assumptions. Many theories have emerged from the literature, but the Commissioners are most likely to consider the following as valid options:

Centralist federalism. As it was originally understood, this theory posited that the federal government should be the predominant level of government, and provinces should be the subordinate level. In the interests of nation-building, many powers were explicitly (or in some cases implicitly) accorded to the federal level in the 1867 constitution. Centralists originally held that these powers were meant to be taken literally.

In the modern era, some of the 1867 powers have become "dead letters" of the Constitution. Centralism now manifests itself as centrally-led policy innovation, which the provincial governments are expected to follow. Federally-designed cost-sharing agreements in areas of provincial jurisdiction are examples of this.

Cooperative (now Collaborative) federalism. Cooperative federalism accepts the continuance of the two orders of government as outlined in the Constitution, but it values rational policy and the service to the public more than the maintenance of jurisdictional sovereignty. Historically, it resulted from pressure for national standards in social programs and the desire to end disparities between classes of people and regions of the country. Cooperative federalism manifested itself in the post-war period in the growth of federal-provincial conferences, the establishment of intergovernmental institutions, broad-ranging federal-provincial agreements, and a general lack of resistance to the use of the federal spending power.

Some have seen a return of cooperative federalism in the frequent mentions of "*collaborative federalism*" in the 1990s. The Social Union Framework Agreement of 1999, which some consider to be a new charter of intergovernmental behaviour, displayed collaborative themes in its calls for adherence to principles like due notice, partnership, collaboration, performance management, fact-finding and mediation, and others.

Intrastate federalism. Intrastate federalism means federalism *within* federal institutions: making federal institutions reflect and represent provincial diversity. Two variants of intrastate federalism exist. *Provincialist intrastate federalism* aims to strengthen provincial government or provincial electorate representation in national institutions. *Centralist intrastate federalism* wants non-governmental provincial interests represented in federal government institutions to make Ottawa more responsive and legitimate.

In both of the variants, there would be a qualitative change in federal institutions: they would now become truly "national" institutions. The "provincial" variant is most popular lately (Cf per the Charlottetown Accord's Triple-E Senate). Most (but not all) provincialist reformers would have the provincial governments or provincial electors choosing who would would represent them in the national institutions; most centralist reformers (but not all) would have the federal authorities choosing who would represent the provincial interests.

Asymmetrical federalism. Asymmetrical federalism means "a federalism that would not only recognize natural differences (such as size, population, history, etc.) among the units of a federation, but also formal differences in law among the units either with respect to jurisdictional powers and duties, the shape of central institutions, or the application of national laws and programs. In part, this view of federalism seeks to know whether a federation can tolerate one or more forms of "special status" without the federation falling apart on the shoals of provincial equality."[14]

However, some observers argue that asymmetrical federalism can be achieved by informal as well as formal ways. Peter Russell differentiates between *hard asymmetrical federalism* and *soft asymmetrical federalism*. The former is the achievement of asymmetry through formal constitutional law, whereas the latter accords it in fact but not in constitutional form.[15] Working arrangements set up pursuant to the Labour Market Development Ageement (LMDA) reflect soft asymmetry: each province is free to establish unique relations with the federal government. The Canada-Newfoundland Offshore Petroleum Board (CNOPB) model, which establishes federal-provincial "co-management," is another asymmetrical model.

The choice of federal theory to chart the province's future will probably have to be based on a combination of practicality and probability. It is impractical for one province to decree a working doctrine of federalism when there are a dozen other partners involved who may not agree. This alone suggests there should be a preference for an asymmetric approach to intergovernmental relations, and the significant progress made under the LMDA and CNOPB arrangements is another reason to recommend it. In the broader world of intergovernmental relations, however, the probability is that there will be a continuing struggle between advocates of centralist and collaborative federalism. Each camp will have its victories, but each victory carries its dangers because they will inevitably be decided in the interests of larger jurisdictions rather than this one. As a general protection, the province should lobby for decision-rules that offer checks and balances for smaller jurisdictions. The intrastate option has ceased to attract much attention after a period of popularity in the 1970s and 1980s, but if it could artfully be integrated with asymmetric ideas, some interesting possibilities could emerge.

Such reasoning will inform many of our later recommendations for federal and intergovernmental institutions. Asymmetry, where possible, will be the federalism approach we recommend, but other approaches will have to be accommodated.

The Evolving Role of the Function of Representation in Federal Institutions

The Present Role of the Function of Representation in Federal Institutions

Before one investigates the evolving role of the function of representation in federal institutions, it seems logical to establish what is in fact the *present* role of the function of representation in federal institutions, with special reference, where appropriate, to Newfoundland and Labrador. The federal institutions to be investigated involve the House of Commons, the Senate of Canada, the federal Cabinet, the Supreme Court of Canada, the

Federal Court of Canada and other senior courts, major regulatory boards or commissions, the federal public services, the Canadian Armed Services and other institutions.

The House of Commons

Representation in the federal Parliament is based on two separate principles of representation: representation by population and equality of regional representation. The House of Commons demonstrates the principle of representation by population, with modifications. The *Constitution Act, 1867* mandates that there be a decennial census and that the population distribution is used as a rough guide to assigning the number of seats per province. There has however never been an exact adherence to provincial representation by population of the provinces, for reasons of geography, history and perceived provincial needs. The current process used by Elections Canada according to the latest iteration of representation legislation (The *Representation Act, 1985*), is listed in *Appendix 1*.

Legislation has provided for adjustments even after an electoral quota is divided into the population of the province, thus deriving a theoretical number of seats per province.
Since 1915, the "*senatorial clause*" has provided a floor: no province will have fewer members in the House of Commons than it has in the Senate. There is another protection, this time provided for in the *Representation Act,* 1985. According to its new "*grandfather clause,*" each province is guaranteed it will have no fewer seats than it had in 1976, or during the 33rd Parliament. Thus Newfoundland and Labrador is guaranteed what it had in the 33rd Parliament, which is seven seats. (The Terms of Union of 1949 had originally accorded six seats in the House of Commons to the province, at a time when there were 249 members of the House of Commons).

The Senate of Canada

The Senate was designed on the basis of equality of regional, not provincial, equality, but Newfoundland is an outlier to this principle. Equality of the "three great sections" in the Upper House - Ontario, Quebec and the Maritimes, John A. Macdonald insisted, was "to protect local interests and to prevent sectional jealousies". Newfoundland was an exception to this principle. Thinking, in 1865, that the adherence of Newfoundland to the Union was imminent, Macdonald outlined the distinctness of Newfoundland which entitled it to have a separate rationale for representation:

> "The only exception to that condition of equality is in the case of Newfoundland, which has an interest of its own, lying, as it does, at the mouth of the great river St. Lawrence, and more connected, perhaps with Canada than with the Lower Provinces... It, therefore, has been dealt with separately, and is to have a separate representation in the Upper House, thus varying from the equality established between the other sections." [16]

The *Constitution Act, 1915* created a fourth division, the Western division, with Manitoba, Saskatchewan, Alberta and British Columbia, each represented by six Senators. It also allowed for Newfoundland to have six seats in the Senate upon its entrance into Confederation, which in fact came about in 1949.

The Federal Cabinet

The function of representation in the federal Cabinet also involves an important regional aspect. The convention of sectional or regional representation in the federal Cabinet is so basic that it has been called the dominant characteristic of government in Canada.[17] To be sure, other bases of representation - race, religion, gender and so forth - have each played a role, but region overwhelms them all in terms of the attention paid by Prime Ministers in Cabinet construction. Mallory says that representation of Quebec has always been a key element in Cabinet construction, (including here the need to balance French and English speakers). This in turn affects the fate of other provinces as to share of representation. As well, "the increase in the number of provinces has had the effect of increasing the size of the Cabinet. This effect has been compounded by the fact that in order to retain Quebec's due share in the proportionate share of the Cabinet the number of members from Quebec has had to increase, and it is, of course, difficult to increase the number from Quebec without increasing that from Ontario. Needless to say, this principle cannot always be followed because party representation in the House is seldom in the same proportion as party representation from each province."[18] With the larger cabinets, each other province (with the exception of PEI) can expect at least one cabinet representive, and maybe more in the case of larger provinces.

Appendix 2 shows that Cabinet members from Atlantic Canada have over the decades formed a decreasing percentage of the total number of cabinet members; where once they formed close to a third of Cabinets, now they are lucky if they get 15 per cent of cabinet memberships. The upshot is that Newfoundland and Labrador has to compete with other Atlantic provinces for a shrinking share of federal Cabinet representation. Some may argue that numbers are not important and that they could be made up for by a strong regional minister. Such thinking assumes there would be a strong regional minister per province with every change of government, and ignores history.

There has also been a tendency to allocate certain types of portfolio to ministers from certain regions. There are notable exceptions, but the following are generally the case: Atlantic Canada or British Columbia gets Fisheries and Oceans, Ontario gets Finance and the Industry Department, Quebec gets Public Works and Justice, and the West gets Agriculture and various natural resources portfolios.[19]

The Federal Courts and Judicial Hierarchies in the Provinces

Another pattern of representation is found in federal courts. There are three "pure" federal courts - *Section 101 courts* that are completely staffed, financed and organized by the federal government. *Section 96 courts* on the other hand feature shared federal and provincial roles in matters touching the superior courts of the provinces.

Section 101 of the *Constitution Act, 1867* provides the general authority for the creation of the "pure" federal courts[1]: these would be the Supreme Court of Canada, the Federal Court of

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[1] "The Parliament of Canada may... provide for the Constitution, Maintenance and Organization of a General Court of Appeal for Canada, and for the establishment of any additional Courts for the better Administration of the Laws of Canada."

Canada (heretofore with Appeals and Trial Divisions) and the Tax Court of Canada. There are nine judges on the Supreme Court of Canada. (Recent legislation - the *Courts Administration Service Act,* [20] assented to 27th March, 2002, provides that the Federal Court - Appeal Division is to continue under the name "*Federal Court of Appeal*" and the Federal Court - Trial Division is to continue under the name "*Federal Court.*"). There were, as of April of 2000, 1,014 judges appointed under authority of sections 96 and 101 (compared to roughly 1,300 provincially-appointed judges).[21]

Regional "representation" plays a role in the way that the Supreme Court of Canada is configured. By statute, three of the justices of the Supreme Court must be from the civil law tradition, effectively meaning from Quebec. Convention dominates the appointment of the other six justices. By convention, three of the justices come from Ontario, and three from the rest of Canada. The "rest of Canada" translates in practice to two being from Western Canada, and one from Atlantic Canada.

There has been and will continue to be some degree of regional representation in the Federal Court of Canada and the Tax Court of Canada. Until recently, the *Federal Court Act* provided that in addition to the Chief Justice and Associate Chief Justice, there were to be not more than 44 other judges, 12 appointed to the Court of Appeal and the remainder to the Trial Division. Furthermore, in s. 5 (6) of the Federal Court Act it stipulated that "at least 15 of the judges shall be persons who have been judges of the Court of Appeal or of the Superior Court of the Province of Quebec, or have been members of the bar of that Province."[22] However, the new *Courts Administration Service Act* [23] of 2002 - which continued the previous division under new names (as noted above) - now provides (in s. 5.1 (1) that "the Federal Court consists of a chief justice called the Chief Justice of the Federal Court, who is the president of the Federal Court, and 19 other judges." It goes on to provide, in s. 5.4, that "at least four of the judges of the Federal Court of Appeal and at least six of the judges of the Federal Court must be persons who have been judges of the Court of Appeal or of the Superior Court of the Province of Quebec, or have been members of the bar of that Province." The reasons for this are not sinister; they simply attest to the fact that a system of civil law exists in Quebec, and that there should be judges who are familiar with that system.

For its part, the *Tax Court of Canada Act* provides (in s. 4) that "Either the Chief Judge or the Associate Chief Judge shall be or have been a judge of the Superior Court of Quebec or a member of the bar of that province." The Tax Court of Canada has, in addition to the Chief Judge and Associate Chief Judge, 21 judges and four supernumerary judges.

Regionalism is not just present in the appointment process; it can be said to be implicit, perhaps, in the residency requirements. The *Federal Court Act* and the *Tax Court of Canada Act* require judges of both courts to reside within 40 kilometres of the National Capital Region. This has led to the issue of "regionalization" of these courts, namely whether or not judges should be permitted to reside outside the National Capital Region (NCR) and hear cases in the regions where they live. A special report conducted by the federal Auditor General proposed amalgamation of the two courts but maintained that they should continue to be centred in the NCR. However, voluntary exceptions to the residency requirement could be made in the interests of gender and regional representation if these were deemed public policy priorities.[24] Auditor General Desautels' report reviewed the arguments for and against regionalization of the courts, here appended as *Appendix 3*.

The qualifications of, the advisory process for, and the consultation about, appointments to the federal judiciary in the provinces all bend towards privileging the province's own citizens. In particular, the qualifications of provincial superior, district and county courts, as set out in ss. 97 and 98 of the *Constitution Act, 1867*, maintain that appointments will be made only from persons who are members of the Bar of that particular province. (The district and county courts are now amalgamated with the provincial superior courts in all provinces.) Newfoundland's provincial court system is very much like those found in most of the provinces.

The Federal Public Service

The federal public service is also regionalized, but regional representation has tended to be overshadowed by other representative criteria. As of 2001, as calculations done from federal statistics in *Appendix 4* show, approximately two-fifths - 39.25 per cent - of federal employees worked in the National Capital region. The percentage of federal public servants working in Atlantic Canada, as defined by Treasury Board criteria (see note, *Appendix 4*) was 12.36 per cent. Newfoundland, at 2.02 per cent, had slightly more than its percentage share of Treasury Board-defined public servants.

The problem is that equitable regional representation in the public service is not an explicit policy of the federal government. In fact, until recently, federal Public Service Commission advertisements prevented applicants from outside specific geographic locales from applying for many positions. The only explicit policies are those which are aimed at official bilingualism and employment equity.

Official bilingualism is guaranteed by the *Official Languages Act of 1988*. Section 34 of the *Act* says that English and French are the languages of work in all federal institutions and all officers and employees have the right to use either official language.[25] In order to give meaning to balanced participation, section 39 specifies that both language groups will have equal opportunities for employment and advancement and that the "composition of the workforce of federal institutions tends to reflect the presence of both the official language communities," taking into consideration the specific nature of the institution in question.[26]

Employment equity in the Canadian federal context is best explained by citing the *Employment Equity Act* of 1986. The purpose of the *Act* (and therefore the policy) is:

> to achieve equality in the work place so that no person shall be denied employment opportunities or benefits for reasons unrelated to ability and, in the fulfillment of that goal, to correct the conditions of disadvantage in employment experienced by women, aboriginal peoples, persons with disabilities and persons who are, because of their race or colour, in a visible minority in Canada by giving effect to the principle that employment equity means more than treating persons in the same way but also requires special measures and the accommodation of differences.[27]

It is significant that the language of the 1995 version of the legislation is identical.

In the public service, the government interprets the policy as one coexisting in harmony with the *merit principle*, by which most commentators mean choosing the most qualified individual for a given position. The objective of the federal government's employment equity policy is said to be "to address representational imbalances experienced by Aboriginal peoples, persons with disabilities, persons in a visible minority, and women (the designated groups) within the context of the merit principle."[28] Other considerations of the policy in the federal public service are that there be a *representative bureaucracy* and *fairness* in employment opportunities.[29]

Summary

In summary, this review has revealed a set of institutional arrangements which is anything but consistent from the standpoint of provincial or regional representation. Representation of regions is the key apparent organizing principle of the Senate of Canada; concentrating on regions instead of provinces was seen as a way of preventing narrow provincial jealousies and contention. Newfoundland however - in light of its unique geography - was recognized from the dawn of Confederation as deserving of a province-based representative principle. Representation in the lower house, the Commons, is clearly based on another principle, that of population, but even here there is an element of concern for provincial representation, of a threshold nature. Parliament has determined that the increasingly severe imbalances in the provinces' populations would have rendered their representation nugatory and so it has "stopped the clock" and added protections for provincial representation such as the "Senatorial Clause" and the "Grandfather Clause." Provincial representation is the central principle, if not the only one, guiding the formation and operation of federal Cabinets; Cabinets are viewed as the forum for establishing interregional and interprovincial compromises. However, it is a weighted regional representation, with most provinces represented around the table, but the larger provinces, and especially Quebec, represented proportionately more. The Supreme Court and the superior court systems in the provinces are also established on regional lines, but not the other pure federal courts. In the case of the Supreme Court of Canada, two of the regions from which the Justices are chosen - Quebec and Ontario - are actually provinces, the other regions being the Western provinces and the Atlantic provinces. Superior courts in the provinces are chosen from the provincial bars but Federal Court and the Tax Court representation has seemed biased toward Central Canada, given the statutory requirement for residency of their judges in the Ottawa area. The federal bureaucracy is based on the merit principle, not region of residency or origin. However, the policies of official bilingualism and employment equity provide some other criteria for personnel choice. The governing structures of agencies, boards and commissions are chosen on the basis of a number of demographic, professional and other criteria, with which region coexists as a choice. The armed forces are chosen on the basis of preparedness for the military life, but there appears to be a weak regional basis for choice as well.

Perhaps more consistency is evident when one examines the institutions and sees that the configuration of Canada as a bilingual and bicultural nation - which has weak notions of regionalism implicit in it - as a more central theme. Canada has a regional Senate, a Grandfathered Commons representation, a Central-Canada-weighted Cabinet, a Supreme Court with two-thirds of its members from the two central provinces and other federal courts with Central Canadian-biased selection rules, a language-based criterion for part of its bureaucracy and a host of other arrangements because of a simple fact: Canada was founded with special attention to the linguistic and cultural needs of Quebec and this needs to be fostered and creatively renewed from era to era. It is in this context of the "national question," and the questions of representation to which it gives rise, that Newfoundland and Labrador's representational concerns must be considered. The road is all uphill.

Literature on the Evolving Role of Representation in Federal Institutions

The lack of adequate regional representation in federal institutions has often been a lightening rod for regional alienation. A literature review reveals the perceived reasons for the alienation and some structural solutions. Some of the reasoning may be compelling, some may not. The fact that it exists - in great amounts and with many spokespeople - is itself worthy of note and serious concern by those who attend to the health of the state. The literature itself is enormous, and the assigned space here short, so this will be only a general review.

Lack of Intrastate Federalism

One school of regional alienation popular in the 1980s , dealing with "*intrastate federalism*," alleged widespread federal structural failure. As we will later note in greater detail, advocates of "intrastate federalism" promoted federalism *within* federal institutions: making federal institutions reflect and represent provincial diversity. This is to be accomplished, at least in theory, by strengthening provincial government or provincial electorate representation in national institutions, or else (and this is not as common an interpretation of intrastate federalism) by having non-governmental provincial interests represented in federal government institutions, in order to make Ottawa more responsive and legitimate.

Intrastate federalism is usually distinguished from "*interstate*" or "*executive" federalism*. Interstate federalism, also covered later, has been used alternately to mean (1) executive-dominated intergovernmental relations (2) federal-provincial and inter-provincial relations between elected and appointed officials (3) federal-provincial summitry and coordinating agencies that mimic international diplomacy and (4) institutions that promote consultation and cooperation between governments. Although it is the dominant pattern of Canada's last half century, interstate federalism is seen by many as an imperfect vessel, for reasons stated below.

Smiley and Watts discerned what they perceive to be the operating assumptions common to most intrastate advocates.[30] Together they add up to an indictment of institutional and intergovernmental operation in this country. To paraphrase them, these propositions are:

- National governmental institutions act in an overly centralized and majoritarian fashion. Centralism is manifest in the power of the Prime Minister - inordinate compared to other democratic federations - to appoint "the Governor General, the Lieutenant Governors, the Cabinet, the members of the Senate, and the Supreme Court: in fact, the entire structure of the central government with the sole exception of the House of Commons."[31] Majoritarianism is the bias towards more populous provinces apparent in central institutions as they reflect in their own way the uneven representation served up by an electoral system.

- The federal government's power and legitimacy have waned because it has not adequately represented territorially-based interests. As Irvine says, "A large measure of the current alienation from [the] federal government comes from the fact that its formal power exceeds its real social power. Governments act, and must act, on behalf of the whole country but they do not have support from a majority of the voters, nor do they have caucus representation from large segments of society."[32]
- Central institutions must be more representative of, and responsive to, provincial governments, in order to contain the provincial power which has grown proportinately as the ability of the federal government to reflect provincial and territorial interests has declined. In other words, the centre must represent the regions or else the provinces will push for the more radical alternative of massive decentralization which will ultimately hurt the weaker provinces.
- Federal and provincial governments are currently locked in an unacceptably conflictual relationship because the present structures of government and representation encourage confrontation and are not counterbalanced by institutions which encourage accommodation. Gordon Robertson saw an increasing tendency for provincial governments to concern themselves in areas of federal jurisdiction because of the lack of "an effective forum for open regional advocacy and brokerage within our institutions at the federal level of government."[33]
- In order to represent individual Canadians, who are socially diverse and who occupy geographical areas with different groups represented therein, majority government must in the future mean not only 50 per cent plus one, but regional consensus on importa l nt issues.

These concerns are not of course universally accepted, but they are compelling to many, even to those who do not accept the intrastate recommendations that accompany the analysis.

National and Regional Effects of the Electoral System and Representation by Population

Regions are represented in the House of Commons; how well they are represented is the issue. The electoral system that is used at present is the Single-Member Plurality (SMP) system (one member per riding elected by simple plurality). SMP in Canada has been subject to a variety of criticisms. One is that it tends to manufacture single-party majorities in legislatures even when the parties do not get majorities in the popular vote (the total number of votes cast). Another is that it tends to exaggerate the degree of victory for the party concerned by giving it a "bonus" of seats: a percentage of seats which is greater than the percentage of votes that it achieved in the election. Another is that it tends to disadvantage third or minor parties with dispersed national support, who end up with a percentage of seats that is less than the percentage of popular vote. Yet another is that occasionally a party can form the government but rank second in the popular vote, as was the case with Conservative national victories in 1957 and 1979. These criticisms are held to outweigh the advantages of the SMP system, which include the production of stable majority governments which are free to demonstrate political leadership, clarity of identification of the voter's representative, and the promotion of a two-party system in which the parties serve as brokers of regional interests (the results of the last three general elections excepted).

From the regional standpoint, SMP is a double-edged sword. Regionally-concentrated parties tend to have percentages of seats in the Commons which are significantly greater than the percentage of popular vote that they have earned, giving regional concerns a boost, but exaggerating the degree of regional disaffection. Some political parties as well may end up with no elected members in certain provinces but have healthy percentages of the popular vote there. This latter condition exacerbates the perception of regional alienation where it is not completely deserved: historically the West has not been as estranged from the Liberal Party as the "seats won" figures would suggest, nor Quebec from the Conservatives. In the case of governing parties, this presents an additional serious problem: the representatives of some regions may not be present around the Cabinet table, which defeats one of the major premises upon which the brokerage system rests.

Of course the whole electoral system is roughly based on the principle of representation by population. This means that the more populated areas of the country are, with qualifications noted elsewhere in this paper, entitled to a commensurate number of representatives in the House of Commons. Less populated regions, or regions with declining populations not only have comparatively fewer representatives; they also wield less power in the party caucuses and especially in the government party caucus and the Cabinet.

Decline of Regional Ministers

Observes have identified a number of problems experienced by regions in the operation of the federal Cabinet. These include a tendency for Cabinet positions to be allocated on the basis of representation by population, the small number of ministers from peripheral regions, the strictures of responsible government which privilege the interests of larger regions, the increasing dominance of the Prime Minister's Office (PMO), and the roulette of voting for a party which may not form the next government.[34] The decline in the influence of regional ministers is another perceived deficiency in the Canadian system of regional representation. There was a period in Canadian history (1917-1957) when strong regional ministers were the primary representatives of their provinces or regions.[35] The rise of the power of the Prime Minister and various attempts by the PMO to supplant the influence of these minsters led if not to an extinguishment of their power, then certainly to a significant diminution of it.

Bakvis does however give some hints about the relative effectiveness of regional ministers.[36] He found that the most effective regional ministers were those who both acted as conduits (what we have called delegates) for provincial Cabinets and independently identified what they themselves thought to be in the best interests of their province. He suggested that the institutional supports given to the offices of the regional ministers be expanded. He concluded that "the clout of regional ministers is found primarily on the margins. It is, however, still a good-sized margin, one that could conceivably expand in the future." He also states "regional ministers are an important part of the equation in determining success or failure in protecting or promoting the province's interests within Ottawa circles and especially within Cabinet." If a province is represented by a weak or ineffectual regional minister, therefore, it can hurt its interests.

Deficiencies Muting the Regional Role of M.P.s

There are a number of deficiencies muting the regional role of M.P.s, to add to the litany of representational woes. One is that M.P.s play little role in overseeing or evaluating the nature of executive (or interstate) federalism in this country. Donald Smiley observed that "the lack of parliamentary involvement in federal-provincial relations is demonstrated not only in situations where it is restricted to the *post hoc* ratification of actions already agreed upon by the two levels of government, but also by governments bypassing their respective legislatures in announcing future policies."[37] Another is that the strict nature of party discipline, which tends to make all but the most adventurous M.P.s a representative of their party to the electorate, rather than representatives of various cleavages, like region, to the party and by that token, to the country. For their pains, recalcitrant Members may be threatened with loss of committee chair status, non-signing of nomination papers by the Prime Minister, expulsion from the party caucus and loss of career opportunities like parliamentary secretary and cabinet minister status. The situation is further exacerbated by the asymmetrical nature of parliamentary careers. Unlike Britain, where there tend to be long-serving M.P.s and short-term Prime Ministers, the situation is exactly reversed in Canada.[38] This "amateurism" dooms the normal Member to a subordinate status vis-à-vis the Prime Minister and Cabinet because it leaves him or her less time to establish independent bases of influence.

A Senate Based on Regions but Not Representing Them

In Canada, there is an anomaly at work in the form and function of the Senate. Originally modelled after the British House of Lords,the Constitution implicitly assigns it two functions: to preserve property rights and to represent the regions.(Legislative Review and protection of minorities were two additional functions later attributed to the Senate.) The first function has proved unnecessary to fulfill, and the second has not been a serious concern of the Senate, due largely to the fact that the federal Crown appoints the Members of the Senate. The Government of Canada itself has admitted what Canadians already knew for decades about its lack of regional representation and capacity for authoritative action:

> Appointment by the federal government alone, combined with lengthy tenure (formerly for life, now until age 75), has had two major effects. First, it has weakened the Senate's ability to represent, and to be seen to represent, the regions of Canada....
>
> A good representative must be responsive to the views and interests of those being represented. During a long appointment, such responsiveness cannot be assured. Senators are not obliged to account to their regions, and their actions as "representatives" are not put to any public test....
>
> The second major problem is thus a result of the first. Because of its method of appointment, the Senate lacks the authority to exercise the substantial powers given to it by the Constitution. A political institution can possess formal or legal powers, but if the public does not think it ought to use them, these powers may not be exercised.[39]

Not only does the Senate do a bad job of regional representation because of the long appointment and method of appointment, the basis for representation is basically flawed. In a world where upper houses of legislatures tend to be chosen on the basis of equal numbers per region (see table elsewhere in this paper), the Canadian Constitution allots approximately 46 per cent of the Senate's membership - a total of 48 senators - to two "regions" of Central Canada - Ontario and Quebec, who have approximately 62 per cent of the national population. As McCormick, Manning and Gibson state:

> This manipulation of the concept of region has resulted in an upper chamber whose representation is heavily skewed toward representation by population instead of reflecting the federal nature of the country .... Far from giving increased representation in the Senate to smaller provinces, the Canadian system perpetuates the political dominance of the larger provinces in both houses of the bicameral legislature [Parliament]. Canada is the only democratic federal system in the world in which the regions with the largest populations dominate both houses of the national legislature.[40]

Federal Judicial Appointments

It has often been commented on by critics of Canadian federalism that there are two arrangements in the Canadian Constitution which are anomalous in a federal system. One is that the Supreme Court of Canada, which is the final arbiter in matters relating to the division of powers, is totally appointed by one order of government - the federal - and that the highest level of judicial hierarchy of each province - the so-called "section 96 courts" - is completely chosen by the federal authorities. While disputes about these matters seldom flare into political or constitutional crises, they have been sufficiently contentious to make the list of constitutional reforms in recent years. The Meech Lake Accord, for example, would have added a new s. 101C, providing for a provincial role in the "nominating" of candidates for the Supreme Court:

> (1) Where a vacancy occurs in the Supreme Court of Canada, the government of each province may, in relation to that vacancy, submit to the Minister of Justice of Canada the names of any of the persons who have been admitted to the bar of the province and are qualified under section 101B for appointment to that Court.
>
> (2) Where an appointment is made to the Supreme Court of Canada, the Governor General in Council shall, except where the Chief Justice is appointed from among members of the Court, appoint a person whose name has been submitted under subsection (1) and who is acceptable to the Queen's Privy Council for Canada.

The Governor General in Council was to appoint a person whose name had been submitted by the government of Quebec or another province, as the case may be. (It should be added that an analogous arrangement was provided in the Accord for the appointment of Senators.)

Insufficiently Representative Bureaucracy?

Whether or not the federal bureaucracy is sufficiently territorial in representation is a matter of debate. Matters are not helped by a lack of recent research on the subject, or by the government's lack of interest in tracking the geographic origin of employees in the federal system. There is also a school of thought that it simply does not matter.

One school of thought considers the degree of territorial representation of the federal public service to be satisfactory. Beattie *et al.* found that the middle level of the bureaucracy was regionally representative, reflecting all regions but Quebec, and its degree of regionalism exceeded that of the senior executive level.[41] However, Dennis Olsen's 1973 data revealed that there was a significant degree of regional representation in the federal bureaucratic elite (183 in total, in department and public corporations). The Atlantic provinces had 12.8 per cent of the Canadian-population in 1971, and 7.1 per cent of the Canadian-born bureaucratic elite in 1973; Quebec had 31 per cent of the population and 27.9 per cent of the elite; Ontario had 30.9 per cent of the population and 31.1 per cent of the elite; the Prairie provinces had 18.9 per cent of the population and 28.4 per cent of the elite; and British Columbia had 5.5 per cent of the population and 6.4 per cent of the elite. However, the Atlantic provinces were less represented in Ottawa's elite. These findings were roughly similar to those of Kernaghan for 1977, who concentrated only on senior department executives. He found that the Atlantic provinces, with 9.5 per cent of the population in 1976, had 9.5 per cent of senior executives; Quebec, with 27.1 per cent, had 23.7 per cent; Ontario, with 35 per cent, had 43.2 per cent; the Prairie provinces, with 16.5 per cent, had 16.0 per cent; British Columbia, with 10.7 per cent, had 7.6 per cent; and the Yukon and NWT senior executives formed .1 per cent and .2 per cent, respectively of the total. He concluded that "there seems no pressing need, except perhaps in Quebec, to use...remedial strategies...to enhance regional representation in the federal bureaucracy."[42]

Another school of thought stresses that the federal bureaucracy in recent years has been insufficiently representative. David Kilgour, now a Member of Parliament for Edmonton Southeast and Secretary of State for Asia-Pacific relations, and author of *Inside Outer Canada* (1990) wrote in 1991 that:

> Data on regional or provincial composition of federal public officials are difficult to find because, unlike linguistic and gender data, they are rarely recorded. My own survey of the 220 most senior individuals in 28 federal departments and agencies in mid-1989 indicated that only about 10 per cent were born and educated in Western Canada, which holds about 30 per cent of our national population.
>
> Four per cent were from Atlantic Canada (which has almost 10 per cent) in both education and birth. Senior executives who were both born in and educated in either Ontario or Quebec held 70 per cent of the highest posts. Eight per cent of the top job holders were born outside Canada, but all of these had received at least part of their education in Ontario or Quebec.[43]

Kilgour saw this as an extremely unfortunate pattern. Federal officials at the middle or senior levels of departments play key roles in the shaping of policies, he said, and there is cause for concern when there is limited organizational capacity to represent regional circumstances.

Whether all this debate actually amounts to anything meaningful is a valid question. Representative bureaucracy theory, as several commentators have pointed out, is premised on a kind of "active representation" model, where public officials lobby on behalf of the demographic or territorial groups that they represent, and where people's behaviour is shaped by pre-employment socialization. The literature is inconclusive on these issues. More likely socialization factors, Smiley and Watts venture, are graduate-level education, the gateway to promotion in the federal service, and career paths of senior federal officials, which are trodden for the most part in the national capital region.[44] Whatever the case, it is worth lobbying for a territorially representative bureaucracy at the very least for fair employment prospects for Newfoundlanders and Labradorians.

Summary

Summarizing, then, what the commentators in this literature review all contend is simple: national representative institutions are insufficiently representative. National institutions represent Central Canadian interests; intrastate federalism is a working solution. Regional ministers, although valued protectors of provincial interests historically, are in decline, but this decline can be arrested: indeed, their role needs to be expanded. M.P.s are discouraged from acting as regional voices because of a variety of factors, a basic one being the lack of a parliamentary role in general policy-making, let alone intergovernmental policy-making. The Senate is based on representation of regions, but its actual capability to represent them has been severely compromised due the long period of appointment (which hinders accountability) and the method of appointment (which hinders legitimacy). Federal judicial appointments both by statute and convention privilege Central Canadian appointees and place Atlantic Canadians at a severe disadvantage in terms of careers on the pure federal courts. Information on the regional makeup of the federal bureaucracy and boards is unfortunately sketchy, but recent data indicate that Atlantic Canada does not get its share of senior officials.

In short, all the institutions are in question from a territorialist standpoint. No one body is acting so as to give effective voice to provincial or regional actors. The centre appears to represent mainly the centre. The regions even have a new name which describes their status: "Outer Canada."[45] The corpus of reform literature is growing yearly, but actual reform has been modest.

Representation of Newfoundlanders and Labradorians in Federal Institutions Since 1949

In 2002 the population of Newfoundland and Labrador was 531,595. The population of Canada was 31,413,990. This means that the people of the province formed only .0169222 of the population of the country - scarcely 1.7 per cent. If the logic of strict proportionality were taken to its limit, the province would have

- Five Commons members (of 301);
- Two Senators (of 105);
- perhaps one of the ministry (as it now has, out of 39, as of April 11, 2003);
- almost never have a Newfoundlander as a Justice of the Supreme Court or as a judge of the Federal Court, Court of Appeal (formerly the Federal Court-Appeal Division);
- perhaps every so often have someone from this province as a judge in the Tax Court of Canada or, less often, as a judge in the Federal Court formerly the Federal Court - Trial Division.
- have its share not only of the federal public service (1.7 per cent), but also of senior appointments to the leadership positions in the public service;
- have its share of appointments to agencies, boards and commissions;
- have between 900-1,000 Canadian Forces Personnel (of about 55,000)

Proportionate Representation in Federal Institutions

The representation of or by Newfoundlanders and Labradorians since 1949 in federal institutions has not been remarkably unjust, judged in terms of strict proportionality. It has had an assured base of seven Commons members since 1976 (See *Appendix 1*). It gets more than its fair share of Senators (six). It gets its proportionate share of the federal ministry, one regional minister or minister of state. It got the odd judgeship on the Trial Division of the Federal Court of Canada, although it has never had an appointment to the Tax Court of Canada, or the Supreme Court of Canada. It is impossible to say if it gets its share of the federal bureaucracy, since the federal government does not track its employees by provincial origin; as a proxy, one could use the percentage of the federal public service working in the province (2.02 per cent), a figure which is ambiguous, since federal employees in the province include people born in/transferred from other provinces. *Appendix 5*, with material provided by the Federal Council of Newfoundland and Labrador, shows different numbers than does *Appendix 4*, but the general drift is towards increasing numbers of federal employees in the province, after reductions (due to Alternative Service Delivery reforms) from 1995 to 1998.[2] It does not get its fair share of senior appointments: only one Deputy Minister from the province since Confederation in 1949 (and, paradoxically, two between 1867 and 1949). However, it gets far more than its share of the Canadian Forces, which does track recruits by province. There were 5,595 serving Regular Force members of the Canadian Forces (CF) who were from Newfoundland and Labrador as of 31 March 2001. This represented close to a tenth (9.6 per cent) of total Regular Force members serving in the CF on that date.[46]

This is not to say that things are perfect on the representational front.

Senators from the province have not been chosen on the basis of enhancing its status or influence in the federation. The province's Senators (see *Appendix 6*) have all been chosen on the basis of party favouritism; there has never been a choice of the incumbent based on provincial or community service, as is sometimes the case in other provinces. There have been 850 Senators appointed since 1867 in Canada, and 25 appointed from Newfoundland and Labrador.

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[2] The Federal Council says that "it should be noted, however, that the reductions in numbers of employees [from 6,534 to 4,617] in Newfoundland and Labrador were the highest of any province in the Country. It should also be noted that considerable amount of the increase in employees from 1998 to 2002 [to 5,528] is made up of short term and seasonal staff associated with the Tax Centre. Conversely, a significant portion of those that left the public service and did not go to the private sector were higher paid full time employees."

Gender equity in MP candidacy although it has been a concern for the established parties elsewhere in Canada, has not been a major factor in federal elections in Newfoundland (See *Appendix 7*). In all of the federal elections since 1949, there have been a total of 373 candidates, including party representatives and independent candidates; only 31 have been women. A little over half of this latter number (16) have been candidates for the New Democratic Party, a figure much larger than that of the Liberals (seven) and the Progressive Conservatives (three) and the Reform/Alliance (one).

Things have not been getting better. The numbers of women running has not grown, but declined. The record for the older parties is particularly unimpressive. In the 1993 federal general election there were eight women candidates of 30 in total; three were NDP, two were Liberal, one was PC, one was NLP and one was Reform. In the 1997 federal general election, there were four women candidates of a total of 29 candidates in all of the seven ridings in the province; of the four women, three were candidates for the NDP and the other was Liberal. In the 2000 federal general election, only three of the 32 candidates were women; two of them were NDP and one was independent.

In the Commons (see *Appendix 8*), only two women have ever been elected from the province, Bonnie Hickey and Jean Payne, both in the 1993. For various reasons they could not even win their party's re-nomination, let alone re-election.

The ministers chosen from Newfoundland (see *Appendix 9*) have not all been uniformly strong. There is general consensus that the four strongest regional ministers since 1949 have been Jack Pickersgill, Don Jamieson, John Crosbie and Brian Tobin. However, the fact remains that there were 10 other "regional ministers" who other Canadians and Newfoundlanders would be hard pressed to name, let alone review their achievements on behalf of the province. Other provinces may have weak regional ministers from time to time as well, but in the Newfoundland case, so much rides on them that non-performers are of relatively greater concern.

Pickersgill, Clerk of the Privy Council, was persuaded by Premier Smallwood to run in a Newfoundland riding in 1953 and was a powerful voice in the federal Cabinet during the Liberal years until 1967. He was instrumental in getting a number of benefits Newfoundland wanted: for example, the 90:10 federal-provincial cost-sharing formula for finishing the Trans-Canada Highway, providing Unemployment Insurance for people who fished for a living, making Term 29 a constitutional right, and freeing privately financed power developments from federal tax, thus aiding the Churchill Falls development.[47] Bakvis says that in the Pearson Cabinet, "only Pickersgill, representing Newfoundland and one of the few holdovers from the St. Laurent era, carried any real weight as a regional representative."[48] Jamieson held a number of powerful portfolios during the Trudeau years, especially Transport, Regional Economic Expansion and Industry in the late 1960s to mid 1970s, which stood him in good stead to direct attention to the province's economic needs.

Of Crosbie, Donald Savoie says, "When [Mulroney] wanted someone to tackle a difficult sectoral problem, like the crisis in the east coast ground fishery, he would ask someone like John Crosbie, a strong, articulate ministers from Newfoundland and Labrador, to handle it;" and he credits Crosbie as the only minister in the federal cabinet who favoured the crucial extra funding to the Hibernia Project when Gulf exited from it.[49] Bakvis adds that

> John Crosbie...showed a remarkable capacity to influence the activities not just of his own portfolios but also those of other ministers in areas that were deemed crucial to the well-being of Newfoundland. While his star dimmed after Newfoundland dropped from four government members in 1984 to two in 1988, he still retained control over all fisheries matters affecting the east coast....By the spring of 1989 it was openly acknowledged...that quotas for various fish stocks and the allocations between inshore and offshore fishermen were being set directly by Crosbie rather than the minister of DFO, Thomas Siddon....Furthermore, as minister of international trade since March 1988, Crosbie already enjoyed considerable influence on the conduct of negotiations over the tricky Canada-France boundary dispute.[50]

The province found him useful not only as a conduit (what we have termed a "delegate" representative) but as an independent goad to action.

> In Newfoundland, the arrival of John Crosbie as the province's voice in Cabinet was perceived to make a world of difference, at least in the eyes of [provincial] officials, with respect to fisheries and offshore resources. Furthermore, Crosbie did not simply convey provincial views to Ottawa; he also provided Newfoundland officials with insights into the opportunities and roadblocks existing within the Ottawa system.[51]

Tobin was instrumental in arresting the extravagant degree of overfishing by foreign fleets in the Atlantic, beginning the dynamic which led to achieving a new deal with NAFO nations. As Industry Minister, he focused new attention on the needs of rural communities for broadband Internet access.

In the federal bureaucratic elite, there has only been *one* Deputy Minister (DM) from Newfoundland and Labrador since Confederation in 1949, Arthur May, who was Deputy Minister of Fisheries (see *Appendix 10*). (Interestingly, there have been three in total since Confederation in 1867, including May, but the previous two were born in the 19th Century.) There have been close to 400 DM appointments since 1867. Therefore, the province has received, in the most generous interpretation of the statistics, roughly .0075 or three-quarters of one per cent of DM appointments.

There has never been a Newfoundlander on the Supreme Court of Canada, nor will there be a chance of one for over two decades if the current Atlantic-origin justice, Mr. Justice Bastarache, stays on the court until retirement age. There have only been two Federal Court appointments from Newfoundland and Labrador since the Court was established in 1971 (see *Appendix 11*) and none in the Tax Court of Canada since it was established in 1983 (see *Appendix 12*). The Honourable Elizabeth Heneghan currently sits on the Federal Court - Trial Division (recently renamed the Federal Court) and the Honourable Leonard Martin sat on that same Court for six years, from October 1985 to October 1991. This means it took 14 years to appoint a Newfoundlander; there has never been a Newfoundlander as Chief Judge or Associate Chief Judge; that the province's representation on the current total court is 2.5 per cent and it has formed 2.4 per cent of all appointments in the Court's history; and of course, 0 per cent of Tax Court and Supreme of Canada appointments.

Canadian Forces Regular Forces representation aside, Newfoundland and Labrador is not getting its proportionate share of DND expenditures, while the share of other provinces remains elevated. *Appendix 17* shows that the province, although sitting at 1.9 per cent of the population in 1996-1997 and 1.8 per cent of the population in 2000-2001, was getting only 1.0 per cent of DND expenditures in 1996-1997 and 1.2 per cent of DND expenditures in 2000-2001. In those same years, Ontario's share went from 42.4 per cent to 47.7 per cent, although its share of the national population stayed in the 37 per cent range. In the Atlantic provinces, Nova Scotia gets around 10 per cent of national DND expenditures in Canada, but has little more than three per cent of the population. The actual number of DND personnel stationed in the province has declined, as *Appendix 18* demonstrates. While there have been slight declines in the DND civilian personnel in most provinces (Ontario's number has grown), Newfoundland and Labrador's drop has been the most precipitous, from 416 in 1996 to 130 in 2000-2001. Like many other provinces, its regular forces have dropped in numbers (743 to 615). Its reserves have grown (966 to 1175), but so have those of many other provinces.

So, all things considered, Newfoundland and Labrador is getting an approximate - although not perfect - share in the representational structure of the country. It gets more than its share in the Commons and Senate. It always has a Cabinet Minister designated as the main interlocutor with the federal system. It apparently gets more than its share of the federal bureaucracy. It certainly gets far more than its share of the Canadian Forces personnel.

It is however severely lacking in representation in the federal judicial and administrative hierarchies. This is important because the province's representatives are not able to influence judicial and administrative decision-making.

Representation Without Power

Yet one can have representation without power. Newfoundlanders and Labradorians tend to look at the *results* of the combined institutions of the Canadian state, as well as the relative burdens of the federal partnership, for evidence of the lack of effective representation. The manifestations of weakness are evident in many areas of public administration. Proportionality is therefore not enough.

There is, for example, no federal policy of decentralization of departmental headquarters to benefit Newfoundland and Labrador. This contrasts with the case of Prince Edward Island, which benefited from the locating of the national headquarters of the Department of Veteran's Affairs in that province in 1981. (It also received a processing centre for the Goods and Services Tax servicing the whole country in 1990 as a political recompense for losing the Summerside military base.) The decentralization of the Department of Fisheries and Oceans is a natural candidate for placement in this province, but little lobbying, at least in public, has taken place to promote such a move.

There are no Atlantic regional departmental headquarters in Newfoundland and Labrador. At last count, Nova Scotia had 17 and New Brunswick had 11. The only federal headquarters which are in the province are for those departments which have headquarters in each province.

Marine Atlantic headquarters are still in Moncton, despite a decade of lobbying by the province to bring it here.

One laudable federal practice however has been the has been the placing of a significant ACOA "policy shop" in St. John's, as well as some ACOA staff outside the capital city. At about 129 people, the St. John's ACOA headquarters almost matches the Moncton ACOA headquarters in level of staff commitment. This province's ACOA staff are well-respected for their professionalism and dedication to the province's economic development.

Newfoundland and Labrador is the only province other than PEI with no federal penitentiary. This provides a host of economic benefits available to other provinces but not to this one.

In the 1990s, this province bore the heaviest brunt of federal bureaucratic downsizing. From April 1995 to March 1998, federal employment declined by 27 per cent in this province (from 6,440 to 4,701 employees) compared to the national average decline of 17 per cent; this was the largest decline experienced by any province and this occurred at arguably one of the worst periods in its economic history. Federal employment during the same period declined by 22.1 per cent in Nova Scotia, 24.4 per cent in New Brunswick and actually rose by 2.1 per cent in PEI. The National Capital Region and the Outside Canada area were the least effected, declining only by 12.4 per cent and 7.1 per cent respectively.[52]

There were significant cuts in the 1990s to federal departments and agencies which were crucial to the province's interest: the Canadian Coast Guard, DFO, HRDC, ACOA and the CBC. At the height of the province's economic crisis in the 1990s, Ottawa was closing federal government offices in the province: CMHC Cornerbrook, the National Film Board in St. John's, the Canadian Saltfish Corporation, the Public Works Cheque Production site in St. John's, the Newfoundland Forest Research Centre in St. John's, the St. John's Weather Office and the Newfoundland Militia District Headquarters. In March 2003 the phasing out of the Gander Weather Centre was announced.

What constitutes effective representation for the province is a notion that obviously has to be revisited. This paper suggests there is a need for a firm ideational foundation.

The Secret Nation

All of the foregoing ideas do not amount to much if they are not predicated upon addressing the representational needs of Newfoundlanders and Labradorians. The citizens and the province may be represented in rough proportion to population, but this does not present much in the way of checks and balances.

Facts count. So do ideas. One must return to them to explain the profound sense of betrayal many Newfoundlanders and Labradorians feel in the current federal system. There is the sense that, contrary to expectations, the citizens of the province have been relatively powerless to influence the major directions taken in the last half century that directly or indirectly affected it. More than that, there is a perception that the central problem is that the relationship of the province to Canada (and to other provinces) is one of unequals. A common perception is that *this is not the way a former self-governing country and Dominion should be treated.* The relationship should be one of equal partnership. (For an eloquent expression of this point of view, see the column by journalist Bob Benson in the box below.)

The Telegram
St. John's
Sunday, February 9, 2003

National partners

One of the great mysteries of our soon-to-be commemorated 54 years of Confederation is why successive federal governments in Ottawa have been insensitive to our wishes to be an equal partner in the Canadian nation.

For example, royalty revenues from offshore oil could go a long way to help us achieve that goal if we didn't have to rely on federal handouts. Indeed, the Atlantic Accord reached in 1985 between the federal government and the province specifically recognized the right of Newfoundland and Labrador to be the principal beneficiary of offshore revenues.

Yet, it wasn't that long ago when Premier Roger Grimes estimated the province keeps only 30 cents of every dollar earned — other estimates suggest 20 cents to the dollar — from offshore royalties because Ottawa claws back the revenue from equalization payments.

With royalties estimated to come in at $800 million a year when all the offshore fields are in production, that would mean under the present arrangements Newfoundland and Labrador would get to keep a measly $130 million, according to my calculations — simple old journalist that I am.

Every cent counts in a province with the nation's highest unemployment rate, the lowest per capita income: where health-care spending amounts to 42.5 per cent of the $3.5 billion budget and the provincial debt load works out to about $21,000 for every man, woman and child living in Newfoundland and Labrador.

Nation of equals

Does it not make sense for Ottawa to let us keep all the offshore revenues until we reach the high standards in health care, education, social services, transportation and so forth of the "have" provinces? Not until then can any prime minister like Jean Chretien or wannabe Paul Martin proclaim we are a nation of equals from coast to coast — not just from Halifax to Vancouver, but from St. John's to Victoria and to the Arctic coast.

There has always been a certain tension between Ottawa and Newfoundland, based on Upper Canada's view of us as an odd, small and irrelevant bit of land somewhere out there in the fog. But that quickly ended when Canada discovered our vast mineral wealth and hydro potential in Labrador, not to mention our strategic position in the North Atlantic.

But back in 1919, Newfoundland was part of the British delegation at the Paris peace conference to end the First World War. Newfoundland was too small to have its own delegation, but our Prime Minister Sir William Lloyd sat with the Brits, who were led by PrimeMinister Lloyd George.

The Canadian delegation, headed by Sir Robert Borden , sat at a separate and lower table. They were miffed Newfoundland sat at the main table with the Brits.

Newfoundland had status as a dominion in the Commonwealth and could apply for membership in the League of Nations, the forerunner of today's United Nations.

Instead, the government of the day put its foreign relations in the hands of Britain, but still remained a viable country and dominion which was recognized in the Balfour Declaration of 1925 and the Statute of Westminister in 1932.

Interestingly, if Newfoundland and Labrador decided on Responsible Government instead of Confederation, we could have eventually declared a 200-mile economic zone which would have given the country complete management rights and control over offshore oil. It has been suggested we brought that ownership with us into Confederation, but more learned voices than I say no.

If we were treated as an equal with the other dominions of the Commonwealth like Australia, New Zealand, South Africa and Canada, what did we do to become less equal in the eyes of Ottawa since 1949?

Bob Benson is a St. John's journalist.

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Survey of Major Options For Representation Reform

As noted at the beginning, there have been several options for representation reform suggested both in Canada and in other federal states. This section will investigate some of them. The emphasis will be to identify "decision points" which emerge from the study of domestic and international federal systems: that is, different options that the Commissioners may care to consider. Later we will assess whether or not the patterns deserve emulation in Newfoundland-Canada relations.

Approaches to Federalism

Decision Points:

- Does the Commission wish to have an explicit philosophy, or theory, of federalism?
- Which are the most applicable in the case of representation of the people or governments in institutions of the federal government?
- To what new areas of representation and intergovernmentalism should the theory be extended?

One of the enigmas of Newfoundland's existence is that, for a province whose relationship to the federal government is so important to it, it has not developed a clear and consistent federal theory to guide it. Other provinces have developed working theories of federalism that established ground rules for negotiations with the federal entity. Quebec's governments, aided by the province's intellectuals, successively adopted classical federalism, dualist federalism, and EU-style federal approaches before contemplating sovereignty. Ontario (at least until the 1980s) and Manitoba often identified its interests after WWII with those of Ottawa's centralist federalism. Many provinces in the last decade have advocated the "collaborative" approach as their working theory. Whether or not the federal government accepts the particular theory in question is not the issue - generally it will not; instead, the issue should be that the provincial government knows what it wants and has a consistent philosophic rationale which resonates with the province's political culture.

This paper maintains that one of the tasks facing the Royal Commission is precisely to establish this working theory of federalism, preferably one which has a notion of partnership inherent in it. If it does not do so explicitly, observers will be quick to see one implicit in its many recommendations. In a broad sense, all that the Commission will do is informed by theory; in a narrow sense, which options it chooses for representational reform will be too.

It should be stated at the outset that we are using the term "theory" in a very loose sense. Most social scientists understand theories to be "a set of plausible statements or general principles offered to explain phenomena or events. Theories offer testable hypotheses or speculations about the causes of political outcomes."[53] In fact, what we cover here and elsewhere in the paper does not offer testable hypotheses about causation; they could more accurately be described as "philosophies" or "values"[54] relating to federalism, in the sense that they are but subjective views and perspectives; they offer moral or ethical judgements on the organization of the federal system. We are using the looser version of theory for a very simple reason: most books on federalism refer to "theories" of federalism when they are covering schools of thought on the purposes of federalism.[55] The most prominent theories in the Canadian literature relate to centralist, classical, cooperative, compact, dualist, interstate, intrastate, symmetrical and asymmetrical federalism, and provincial intergovernmentalism.

Not all theories are relevant in the case of Newfoundland and Labrador. This paper suggests that four are most appropriate to consider: centralist, cooperative or collaborative, intrastate, and asymmetrical. We have previously explained the content of the theories.

The theory of federalism adopted by the Commission, and ultimately by the Government, should take some things into consideration. It should however not be compelled to take one off the shelf. What is adopted should take into consideration:

- the fact that the province includes the country's unique major island and as such structures to enhance its resource, economic, transportation and social development should be designed differently than if they were on the mainland;
- the contemporary context of Canadian federalism; and,
- the example of world federalisms.

Intergovernmental forums

Decision Points: In the topic of intergovernmental forums, the decision points involve whether the forums should be:

- formal versus informal, or constitutional versus statutory;
- consultative versus decision-making;
- transparent versus confidential;
- multilateral versus bilateral; and,
- third-party or not.

Each theoretical approach to federalism implies certain types of intergovernmental forums. For example, a centralist will prefer a different set of intergovernmental arrangements than will an asymmetrical federalist. This is not to say, however, that one has to chose only one theory and one set of corresponding institutional arrangements. In politics and government, consistency is, as they say, the hobgoblin of little minds. Some of the machinery and the supporting ideation can be mixed. The following national and international arrangements are reviewed to see if they offer us any ideas for representation of a small jurisdiction like Newfoundland and Labrador.

Centralist Arrangements

There is a clear centralist bias in the traditional federal government practice of calling and chairing of intergovernmental meetings and conferences, especially at the summit level. Some have considered it a convention that these were in federal hands.[56] This could continue, if the province feels its interests are sufficiently protected by federal leadership. Another centralist practice would be to continue to have the appointment process for federal boards and commissions entirely in federal hands, working on the presumption that the collective leadership of such boards is constructed with an aim to representing a variety of geographic and social cleavages.[57] Sometimes the practice works to the advantage of the province. Two of the seven members on the Canadian Transportation Agency are from this province (Richard Cashin, appointed in 1996, and Beaton Tulk, 2002), and Paul Dicks was recently appointed to the Board of the Bank of Canada.

Cooperative/Collaborative Federalist Arrangements

This centralist principle in intergovernmental forums underwent a change of sorts during the social union framework years, beginning in the 1990s. New processes would come to reveal cooperative or collaborative assumptions. Joint chairs were the norm during the workings of the Federal/Provincial/Territorial Council on Social Policy Reform (the F/P/T Council). The mildest sort of representational reform would be to extend this principle to a wider range of summit meetings, say on federal-provincial financial arrangements.

Cooperative mechanisms had, of course, previously been recommended by the *Macdonald Commission Report* of 1985. It advocated instruments allowing flexibility and cooperation: delegation, establishing First Minister's Conferences (FMCs) in the Constitution, creating "third-party bodies" to facilitate intergovernmental relations and establishing three ongoing federal-provincial "Ministerial Councils" in the fields of Finance, Economic Development and Social Policy.[58] One notable approach it took was to suggest that the FMC become less a decision-making body than a coordinating and framework-setting one, one in which participants recognize their interdependence.[59] Ironically, this recommendation would not be accepted in Canada but would be elsewhere, like in Australia. Cooperative or collaborative federalism could also be effected by learning from the less confrontational, problem-solving principles evident in certain Australian and South African bodies.

The general characteristic of Australian intergovernmental relations, as Brown has noted, is that they are more collaborative (or "cooperative") than is the case in Canada.[60] Moreover, they have been explicitly redesigned since the 1990s to be more complementary. This is especially the case with First Ministers forums, Ministerial Councils engaging in co-decision models, Mutual Recognition regimes, new national agencies, and uniform legislation.[61] (See *Appendix 13* for a list of some of the various bodies and new instruments involved.) The decision rule of First Ministers meetings - such as the *Council of Australian Governments (COAG)*, the *Treaties Council* and the *Leaders Forum* - is consensus, backed up with legislative action by the governments involved.[62] *Ministerial Councils* are groupings of Commonwealth, state and territory ministers with analogous functional responsibilities who have been formally mandated by First Ministers bodies like COAG to provide decision making in specific matters. Their decision rules vary by area, but range from simple majorities, qualified majorities, and sometimes weighted votes. *New national agencies* are jointly Commonwealth/State enterprises or regulatory bodies whose decisions are implemented by Ministerial Councils or other mechanisms, and which have a variety of cooperative features such as joint appointments, shareholder rights, and co-determined work plans. Coordination of financial affairs involves a variety of First Ministers and Ministerial Council mechanisms.[63]

The Australian model has been called potentially interesting for Canada because there is a recognition that "national" solutions do not have to be centrally-imposed or controlled, there is a commitment to power-sharing by the national government, and there is a high degree of transparency practiced.[64] Brown says it shows that the states can systematically consider the national interest and that the Commonwealth can have the patience to abide joint processes and subdue its reflex tendency to prefer centralized solutions.[65]

With its new constitution of 1996, South Africa entered an era of intergovernmental experimentation. It coordinates intergovernmental relations with a combination of *legislative intergovernmentalism* and *consultative intergovernmental forums*. Legislative intergovernmentalism is provided by the "National Council of Provinces," which is the upper house of the South African Parliament (the National Assembly being the lower). It consists of provincial delegates who participate in constitutional amendments and who pass (subject to Assembly override) parliamentary bills affecting provinces. There are three levels of consultative intergovernmental forums: national-provincial coordination in the national sphere, department-specific coordination between national and provincial governments, and national-provincial-local.[66] In the national sphere, for instance, the President's Coordinating Council is an informal body made up of the President and the nine provincial premiers, providing policy formation and coordination as well as dispute resolution, albeit of a non-binding nature. Most of the national-provincial bodies however have been established by statute; they involve consultation with provinces over the requisite matters before national legislation affecting them can be passed. There are a multiplicity of others.[67]

Some collaborative federalism literature has included ideas about protections for smaller jurisdictions. One is "co-decision." Andre Burelle has suggested a "Pact on the Canadian Economic and Social Union" with weighted voting. In this, there would be a European-style co-decision process carried on by a "Council of First Ministers" where the decision rules would vary from simple majority to weighted majority to unanimity, depending on subject matter, and be binding on governments in the Federation.[68]

A related idea is having a decision-making threshold to assure some measure of influence for small jurisdictions This was the idea behind the federal government's suggestion for a "Council of the Federation" (1991). Such a council, consisting of ministerial representatives from each level of government, would be entrenched in the Constitution, and all of its decisions would require an approval process that mimics the "general amending formula" in the *Constitution Act, 1982*: approval of the federal government and at least seven provinces representing 50 per cent of the population.[69] The votes would be taken on fiscal harmonization guidelines, on the use of federal spending power and on Canadian economic union legislation. (the government was then proposing the economic union as a new federal head of power).

Intrastate Arrangements

There is also the "intrastate federalism" option for intergovernmental relations. This features intergovernmental decision-making being covered by provincial representation in a variety of federal institutions, and is covered in other parts of this paper. Suffice it to say that there are a variety of models that have been considered for a number of different institutions, with the Supreme Court of Canada and the Senate of Canada being the focus of the most attention. In the case of intrastate federalism, the need for intergovernmental forums is lessened because the political accommodation is taking place more within the national institutions, and less between governments.

Asymmetrical Arrangements

One interesting intergovernmental option for Newfoundland and Labrador is asymmetry. In this, the province establishes a series of special relationships for different functional areas of stategic importance to it, and negotiates into existence certain bodies which reflect the asymmetrical principle. Asymmetrical principles - in this case called "joint management," or "co-management" - are present in the case of the Canada-Newfoundland Offshore Petroleum Board (CNOPB). In 1985, the Government of Canada and the Province of Newfoundland and Labrador reached agreement on the "Atlantic Accord" - an accord on joint management of the offshore oil and gas resources off Newfoundland and Labrador and the sharing of revenues. In order to give effect to the accord, both governments passed legislation authorizing the establishment of the CNOPB. The CNOPB is comprised of six members, three appointed by the Government of Canada and three by the Government of Newfoundland and Labrador; both governments appoint the Chair. The Board manages the petroleum resources in the Newfoundland offshore area. Since only Nova Scotia has a deal which is anything like this, the CNOPB can be considered an asymmetrical arrangement.

Newfoundland and Labrador for many years has eyed an analogous arrangement in the fishery. It its 1992 strategic plan *Challenge and Change*, the Wells government stated that it would "aggressively pursue the implementation of a joint fisheries management board (modeled on the Canada/Newfoundland Offshore Petroleum Board) whereby a comprehensive development plan can be put into effect." Its rationale for joint management of the fisheries was that this would allow for coordination, fairness, transparency, conservation and would facilitate provincial economic policy formation and implementation.[70] Former Premier Brian Peckford has also indicated that CNOPB-style joint management in all parts of the fishery should be in place today to help the fishery recover.

Asymmetry is a principle which can be extended to a number of other areas. The asymmetrical principle is also present in the agreement regarding labour market development programs negotiated between the federal government and Government of Newfoundland and Labrador in 1997.[71] Newfoundland and Labrador was the first province to opt for co-management and co-design of labour market programs and services as part of the federal government's plan to renew or "balance" Canadian federalism. The federal and provincial governments now share responsibility for the design and management of labour market development programs and services for the unemployed in the province, whereas this had previously occurred solely at the national level. A federal-provincial Management Committee sets strategic priorities and allocates a budget among eight programs, aided by four regional LMDA committees.

Third-Party or Hybrid Bodies

Third-party or hybrid bodies are another option. One example is intergovernmental bodies operating at arms-length from governments which comment about the intergovernmental aspects of public policy. In the United States, the Advisory Commission on Intergovernmental Relations (ACIR), for example, lasted from 1959 to 1996 and published many insightful analyses of intergovernmental issues. It consisted of three representatives each from the federal Cabinet, House of Representatives, Senate, state legislators, county commissioners, private citizens, as well as four mayors and four governors. There are overtones of this model in the Health Council of Canada which was discussed in the Romanow Report and the 2003 Federal Budget.

One possible mechanism for seeking mutual advantage is the independent third-party assemblage to advise on matters of federalism. Constitutional councils, or national intergovernmental advisory councils, or national finance commissions, could recommend at regular intervals on approaches to division of powers questions, investigate systematic cases of discrimination against regions and provinces, or propose changes to intergovernmental finance; they could also investigate the cost efficiency of the existing division of powers. Their job would, in short, be to promote compromise and mutual advantage.

Regional Representation by Upper Houses

Decision Points: Another area of possible reform involves representation of regions by upper houses. Here the decision points involve:

- method of selection (appointed, direct or indirect election, mixed systems of election);
- equality or non-equality of representation of regions; and,
- specific types of functions and powers (regional representation, legislative intergovernmentalism vs. executive intergovernmentalism, absolute or suspensive vetoes, equal or unequal powers.

The last few decades have seen many Canadians agreeing on the need for reform of the Senate, but disagreeing on the particulars. Developing our own indigenous models for the upper house turned into a kind of growth industry for politicians and academics. However, much of the Canadian debate on upper house reforms was informed by models and developments abroad. We especially looked to other countries for inspiration in matters related to method of selection, the relative equality in representation, and the functions and powers of upper houses.

Method of Selection

Many have seen the appointment of the Senate by federal authorities alone as an anachronism. In the 1970s and early 1980s, the preferred reform option for choosing Senators was appointment by provincial authorities. This was quickly superceded by the notion of direct election. Direct election was the selection method proposed in the Charlottetown Accord of 1992.

The methods of selection of upper houses in other countries are varied.[72] Some countries, such as the United States, Australia and Switzerland, feature ***direct election***. In the case of India, Austria, and South Africa the members of the upper house are ***indirectly elected***. In India 238 of the 250 members of the *Rajya Sabha* (House of States) are elected by Proportional

Representation (PR) by members of the state and territorial legislatures; in Austria the 64 members of the *Bundesrat* are elected by PR from party lists by the provincial parliaments of the nine provinces; in South Africa the 90 members (10 for each of the nine provinces) of the upper house (the *National Council of Provinces*) are elected by the Provincial Parliaments. In Germany, the members of the *Bundesrat* are ex officio "delegates" of the Land (provincial or state) cabinets and vote *en bloc* as their representatives in a weighted system. In some countries there are ***mixed systems of selection***. In Spain, 208 members of the 259-member *Senado* are directly elected and the other 51 are elected by regional legislatures. In Malaysia, 43 seats of a total of 69 in the Dewan Negara are appointed and 26 are indirectly elected by the 13 state Legislative Assemblies (two each). In Belgium, 40 of the 71 Senate members are directly elected and 31 are indirectly elected.

Equality Versus Non-equality of Representation

While equality of provincial representation in the Senate has not been suggested in every past constitutional proposal, it has certainly been the option of choice for latter-day reformers. (See *Appendix 14*, Senate Composition Schemes). Opinion-leaders like the Canada West Foundation (1981), the Alberta Legislature (1985) and Premier Clyde Wells (1989) all proposed equal provincial representation in a reformed Senate of Canada. The fact that the most consensus-oriented constitutional agreement of the last century, the Charlottetown Accord, featured equality of provincial representation in the reformed Senate as a basic principle, was telling.

The reasons for this are not hard to imagine. Populist reformers in Canada were heavily influenced by American representation theory. The founding of the American federation was greatly aided by the "Connecticut Compromise," which joined representation by population (in the House) to equality of regional representation (in the Senate). This institutionalized system of countervailing power has seemed fair to Canadian reformers, especially those who reside in less populated provinces. Another reason is that the imbalance of (population-based) representation in the Commons is so glaring that there is little apparent incentive for governing parties based largely on representatives from Ontario and Quebec to pay much attention to the needs of the western and eastern provinces. Yet another is that the idea is simplicity itself, and simple solutions are appealing in a political system that seems to thrive on preserving arcane and complicated political forms.

As for other countries, there are differences of opinion. Ron Watts noted that equality of representation of the component units is the exception rather than the rule in federations, at least in the 10 federations he studied (See Appendix 15).[73] However, our review shows that, if more recent data are considered and a larger number of federations (21) is considered, equality of regional representation is more the norm than is inequality (See *Appendix 16*). This is in spite of the fact that there are significant variations in the populations of most of the states or provinces in countries with federal systems. In Argentina, Brazil, Malaysia, Mexico, Nigeria, Russia, South Africa, USA, and Yugoslavia, for example, there is equality in the representation for the elected part of the Upper House but there are vast inequalities in state populations.

Functions and Types of Powers of Upper Houses

Over the course of Canadian federalism, four functions have been described for the Senate. These are regional representation, protection of property, legislative or technical review and protection of minorities. There is general consensus that the only function that the Senate has excelled at has been legislative review, but even this function has been tarnished by the charge that the Senate in legislative review is really representing corporate and banking interests, rather than the interests of ordinary Canadians.

Canadian reformers sometimes look to the upper houses of other nations for inspiration regarding which functions that a reformed federal upper house could perform. One such function is intergovernmental relations, or a form of "legislative intergovernmentalism." This is a function performed by the German Bundesrat, and the one that was foreseen (but not yet achieved) for the South African "National Council of Provinces." In a country such as Canada, which has traditionally practiced "executive intergovernmentalism" or "executive federalism," where legislatures are only informed about intergovernmental relations after the fact, and seldom asked to comment on them in a systematic way, the German model would be quite a departure.

Given the mandate for this paper, an intensive discussion comparing the types of powers to be exercised in a reformed upper house is not necessary. However, it is worth considering the types of powers possessed by upper houses in several federations. Depending on circumstances, they may exercise an absolute veto, suspensive veto, coequal powers with mediation, or unequal powers. At one end of the spectrum of upper house powers is the German Bundesrat, which exercises an absolute veto over concurrent federal/Land powers and a suspensive veto (overridable) over exclusive federal powers; at the other is the Canadian Senate, with an absolute veto in all matters except financial bills, but which is practically unused because of a perceived lack of legitimacy. The Charlottetown Accord would have featured an interesting combination of suspensive and absolute vetos, which would apply according to the class of legislation being considered by the Senate. *Appendix 15* offers a comparative outline of the functions and roles of upper houses in federations.

Regional "Representation" in the Judiciary

Decision Points: In terms of reforming the "representativeness" of Section 101 and 96 courts, the options range from recommending whether there be:

- appointment by federal cabinet alone, or in concert with provincial governments;
- continuation of the present consultation model, or a formal nominating model;
- informal, statutory or constitutional procedures to ensure provincial roles;
- transparency or traditional obscurity in choosing judges; and,
- enlarging or maintaining the size of the Supreme Court of Canada

To discuss representation and the judiciary in the same breath smacks of heresy, since the judges once appointed are not expected to represent anything but the law. They are certainly not expected to be spokespeople for the regions from which they are appointed. There are however representative aspects in statute and convention in Canadian judicial circles. Judgeships, after all, are jobs, and jobs have to be spread around in some sort of equitable way, while respecting the functional needs of various legal systems in the country. We made reference earlier to the appointment criteria for members of the Supreme Court of Canada, Federal Court and Tax Court of Canada having a regional aspect, either by statute or convention.

Appointment Procedures

The first issue to be dealt with is the matter of appointment procedures. We have made mention of the fact that the federal Crown has the sole authority to appoint the "pure" federal courts (Section 101 judges) and the highest level of courts in each province (section 96 judges). Many alternatives to this state of affairs have been suggested over the past several decades. Ronald L. Watts sums up what some of them have been, along with Supreme Court, and examples of possible models elsewhere. To paraphrase:

Canadian-made Suggestions:

- constitutional requirement of mandatory consultation with the provinces;
- ratification [of appointments] by a reformed Senate;
- nomination by federal-provincial nominating commissions; and,
- selection by an Appointing Council composed of federal and provincial appointees.

International Models:

- the requirement of Senate ratification of senior judicial appointments, as in the United States;
- appointment of half the members by the state governments, as in effect occurs in Germany through the Bundesrat; or,
- the requirement of prior consultation either with state governments or chief justices of the state high courts as occurs in Australia, Malaysia, and India.[74]

Provincial Involvement

A second and related area of decision making involves the degree to which provinces should be involved in the process. The present model can be called a consultation-oriented one, led by the Commissioner for Federal Judicial Affairs. In this model, the province adopts a passive stance, waiting to react to the federal initiative. In the nominating model, the province would be more activist, in fact initiating the process of naming appropriate candidates for positions. The Meech Lake model alluded to in an earlier section is an example of an activist, constitutionalized stance. It is not beyond the realm of possibility, however, to imagine an activist, provincial nominating stance which could be statutory or informal.

Transparency vs. Obscurity

The relative merits of transparency and public pressure versus the present consultative and somewhat obscure process of choosing federal judges should be considered. In the process which transpired between the resignation of Mr. Justice LaForest and his replacement by Mr. Justice Bastarache on the Supreme Court of Canada on September 30, 1997, there was mention of a Newfoundland candidate for the vacant Supreme Court post. The fact that the province had never had a "representative" on the Supreme Court in 50 years, that New Brunswick had already had its "turn" (both LaForest and Bastarache are New Brunswickers) were never publicly touted as decision factors by politicians in Newfoundland and Labrador. The successful candidate, Honourable Mr. Justice Michel Bastarache, was 53 years old in 2002. This means it could take until 2024, when his mandatory retirement age arrives, before Newfoundland and Labrador has another chance at having one of its native sons or daughters appointed to Canada's highest court.

Enlarging the Supreme Court

Enlarging the Supreme Court to make it more regionally representative is another idea that has been touted on occasion by some observers. Peter Russell nearly 20 years ago detected a:

> convergence of interest in achieving a common goal in Supreme Court reform; strengthening the Court's capacity to act as a vehicle of 'intrastate federalism'....
>
> Throughout the Court's history the composition of its bench has reflected both dualist and regional concepts [the Quebec provisions and the regional representation convention]....
>
> But in the last few years this position has been challenged by proposals to expand the Court's bench to 11 judges and to entrench some pattern or principle of regional representation. In 1978 the federal government's Bill C-60 called for an 11-judge Supreme Court with four judges from Quebec and a requirement that "as nearly as can reasonably be" the remaining seven be drawn from the Atlantic provinces, Ontario, the prairie provinces and British Columbia....The Pepin-Robarts Task Force, endeavouring to achieve a reconciliation of dualism and regionalism, proposed an 11-judge court with five from Quebec and a "regional distribution" of the rest.

Whatever the choices the province makes, it bears remembering what Peter Russell had to say about the importance of a provincial role in the judicial appointment process: "Not only do the provincial governments have a legitimate interest in most federal judicial appointments, but their proximity to the provincial bar and the fact they are often controlled by political parties different from the party in power in Ottawa, should enable them to augment the information available to the appointing authority about good candidates for judicial office."[75]

Since, as some like Peter Hogg maintain, the size of the court is set by statute and not by constitutional provision, an 11-court alternative may be easier (technically!) than it seems at first. Whether public opinion would countenance such a change is another matter. Certainly the change would have to come from an alliance of politicians, academics and members of the legal profession.

Regional Representation in the Federal Public Service

Decision Points: Regarding the federal bureaucracy, the Royal Commission should consider:

- whether or not to recommend that the federal bureaucracy be representative of the Canadian provinces and regions? If so, it should clarify what sort of representation it means. Representative bureaucracy can mean a variety of things: political responsiveness, broadly representative bureaucracy precisely representative bureaucracy, active (or functional) representativeness, passive (or descriptive) representativeness.
- Whether or not it is consistent with a representative bureaucracy that a province have a deficit in numbers of deputy ministers and regional head offices compared to other provinces, and suffer more than its share of downsizing.

Problems in Establishing the Provincial "Representativeness" of the Federal Bureaucracy

As noted earlier in this study, we were unable to determine to what extent Newfoundlanders and Labradorians are equitably represented in the public service, or boards of the federal government. There is no methodology in place in the federal system to permit the retrieval of data on territorial representation. Several federal spokespeople contacted for this study commented on the ethical and practical problems of trying to establish who a "true Newfoundlander" is. Would this be by birth? Last residence? Longest residence? Parents?

An Explicit Policy on Territorial Representation

These objections are not insurmountable. The ethical objection to identification of public servants by province seems a fairly flimsy one, considering that in Canadian history have not raised significant ethical objections to identification by veteran, language, gender, aboriginality, disabled, or visible minority status. In fact these have been the foundation for the Veterans

Preference, Official Bilingualism and Employment Equity programs in the Government of Canada. As well, in the Official Bilingualism program, there is an implicit provincial and regional identification aspect to the program.

As for the problems of practicality involved, these don't seem insuperable. It is a matter of either or all of : 1) checking a box for place of birth on future hirings in the public service; 2) self-identification; and doing selective studies of strategic areas of the public service, such as the executive categories. Analogous measures, it will be remembered, take place in affirmative action programs. The question of whether or not the entire bureaucracy should be considered as needed to be included - or just its elite - is a matter that should be considered after the question about what meaning should be attributed to the term "representative bureaucracy."

The fact that there has been only one deputy minister (DM) from this province in its post-1949 history indicates that the DM cadre is insufficiently representative, regardless of the data about Atlantic representation presented earlier. It also raises the question of lack of territorial equity in representation to have had no regional directors for Atlantic Canada situated in the province.

Political Representation and the Electoral System

Decision Points: Regarding the electoral system, the Royal Commission should consider:

- whether to recommend a purpose (or purposes) of political representation;
- whether regions or other cleavages, or both, should be addressed in a new system;
- whether or not to recommend a change from the SMP system to an electoral system based on some form of proportional representation (PR); and,
- whether or not the change should reflect pure PR principles or should be a hybrid including traditional accountability practices.

Certain difficulties in political representation have been discussed in this paper. There is a lack of electoral clout - in absolute terms - of small provinces and regions, and a chronic lack of women candidates, at least in this province. We have already identified the relevant theory of political representation - in light of these realities and provincial history - as "furthering of interests." The problem is how to structure the electoral system to promote this.

It is in the interests of the province (or at least the Commission) to agitate for a new federal electoral system. There are a number of alternative forms of representation from which to chose. These include a single-member majoritarian system (alternate vote or second ballot); multi-member proportional list, single transferable vote, and a mixed system mixing SMP and PR. In particular, the Task Force on Canadian Unity, Ed Broadbent when he was NDP leader, and several academics have all suggested that a mixed system would be the most useful for reducing the misrepresentation of parties' regional representation,[76] and some literature suggests that women's representation could be improved by either a mixed system or a PR system (if women were placed high enough on party lists).[77] However European-style pure PR systems do not seem in keeping with a North American fondness for at least partial retention of a single-member system.[78]

The furthering of the interests of women and the province's residents would be advanced by having most of its Commons members elected in regular constituencies as at present in the SMP system, and to have "provincial" or "supplemental" M.P.s added - or replacing a percentage of existing M.P.s - and to be distributed by party and by province on the basis of popular vote. The charge that these added members would be "second string" or lesser in prestige would be overridden by the increase in representation of provinces like this one in the governing and opposition party caucuses and the inclusion of regionally-sensitive policies and gender-based analysis by opposition parties who may one day form the government.

Conclusion and Recommendations

The world is a different place than it was a decade or two ago when governments and observers were considering representation reform in Canada. The needs of small jurisdictions like Newfoundland and Labrador in some respects heightened. However, attention has shifted away from conceptualizing ways to redress institutional imbalances and towards new aspects of public policy. It is one of the jobs of the Royal Commission to shift it back.

The Changed Environment

Here are some of the things that have changed:

- There has been a switch from constitutional to non-constitutional solutions for systemic institutional and regional problems. There was a period from the late 1960s to the early 1990s in Canada in which the proponents of broad-ranging constitutional reform were in the ascendancy, and "linkages" (trade-offs) between various aspects of reform were drawn by the actors.[79] What might be called the "constitutional reform industry" - the assemblage of politicians, officials, academics and pundits who favoured such reform - nevertheless failed to convince enough Canadians about the wisdom of this approach. It foundered after the demise of the Charlottetown Accord. One of the ironies of Canadian politics is that what this industry sought unsuccessfully by constitutional means, it was willing to seek next, in some areas, by non-constitutional means.[80]
- A related development has been the switch from proposing all-encompassing umbrella structures (A Council of the Federation, for example) to proposing or putting into effect more functional groupings. There are, for example, the F/P/T Council on Social Policy Renewal, its associated sectoral ministerial councils, and the Romanow Commission's proposed Health Council of Canada.
- Experimentation in intergovernmental forums has come to be the norm. The Social Union Framework Agreement (SUFA) is an intergovernmental agreement which commits governments to seek civic engagement in policy development, but it is not the only one (e.g. The Canada Wide Accord on Environmental Harmonization, the Canada Forest Accord), and is not the only agreement which commits governments to wide-

ranging consulation and harmonization exercises (e.g. the Agreement on Internal Trade (AIT).

- There is renewed emphasis on provincial intergovernmentalism and a *de facto* acceptance of the asymmetries in provincial powers. Large provinces tend to set the agenda for the small provinces in provincial intergovernmentalism, because of larger bureaucracies and greater analytical prowess. This is especially notable in stances taken by the P/T Council in attitudes toward limiting the federal spending power.
- The combination of experimentation in intergovernmental forums and the emphasis on provincial intergovernmentalism has resulted in less attention being placed on the needs of small jurisdictions like Newfoundland and Labrador.
- This relative inattention to the needs of small jurisdictions is exacerbated by the fact that identities other than those based on region or territory have come to the fore, especially those based on gender, sexual identity, relationship to the environment and reaction to globalism. Therefore, there has been renewed and vigorous emphasis on citizen representation as well as government representation.
- The nominal emphasis on e-commerce, e-government and e-democracy also tends to make federal governments see the objects of their efforts not as provincial governments but as individual citizens. Significantly, the Atlantic Investment Partnership (AIP) a five-year $700 million federal initiative announced in 2000 and aimed at strengthening the Atlantic Region's capacity to innovate and compete, was devised to operate without the necessity of provincial partners.
- Over the last decade there has been a notable shift of attention from reform of the federal upper house (Senate) to the lower house (House of Commons) as the engine of representivity, a tendency which has not escaped notice politically. This was evident in 2002 on a number of fronts: Liberal Paul Martin's October speech on how to correct Canada's "democratic deficit,"[81] the electing of Commons committee chairs, and the growing emphasis on PR as a way to break the stranglehold of party in the Commons. Reform of the Commons however does not necessarily equate to regional influence. An Ontarian now chairs the Fisheries Committee, for example.
- A related development is the return in Canada in recent years to an emphasis on executive intergovernmentalism rather than legislative intergovernmentalism as an institutionalized way to address regional concerns.
- Various federal inititatives in the last decade have made enunciation of provincial aims more difficult to achieve: the federal programs in Atlantic Canada have begun featuring a federal-only approach; the federal authorities have initiated an equalization claw-back on natural resource revenues and changed CHST transfer to a per-capita basis.
- The federal government tends to find it politically dangerous to contemplate the representation of regions in new intergovernmental forums, because they are likely to enunciate only regional demands. If Ottawa feels compelled to bend to regional values (e.g. in the SUFA exercise), it will juxtapose them with other values, like transparency, accountability, mobility (Charter and managerialism values) so that the regional element becomes muted.

- There is a battle for focus of citizen attention/representation between the bureaucracy and the politicians.

This is a difficult kettle of contemporary realities to contemplate. Such an array of developments do not seem to lead one to imagine an easy or advantageous voyage ahead for a small province in a peripheral region.

Yet being a nautical nation for five centuries - almost four-and-a-half centuries before it joined the upstart federation to the wast - has left Newfoundland and Labrador with some basic survival instincts. One of them is going against the tide. How else to explain a country which was born of forbidden settlement and developed independently in North America? Innovation and moving against the tide may be still relevant strategies.

Some of the contemporary realities mentioned above are not in the interests of the province. These include the current disinterest in institutional reform, a federal tendency to "go it alone" without provincial partnerships, a growing preference for executive intergovernmentalism over legislative intergovernmentalism, a strengthening of provincial intergovernmentalist forces. Under these tendencies, Newfoundland and Labrador's concerns have been relegated to secondary status. The province does however stand to benefit by other contemporary developments. These include the spirit of innovation in intergovernmental affairs, the concern with public consultation and non-territorial identities.

Newfoundland and Labrador may yet benefit by a new emphasis on regional issues that is making itself felt. Premier Klein of Alberta, reacting to a new western separatist movement, has relaunched institutional demands reminiscent of another era. In March of 2003 he called for three concessions by Ottawa to the provinces: a Senate appointed from lists of nominees provided by the provinces; regularly-scheduled First Ministers meetings wherein premiers raise their own issues with the Prime Minister; and a guarantee of consultation to precede Ottawa signing any major international agreements or treaties such as the Kyoto Accord.[82] Later in the month, federal Intergovernmental Affairs Minister Stephane Dion noted the federal government would consider a constitutional amendment to reform the Senate if there was provincial agreement. He noted he felt "a great deal of sympathy" for the idea of Ottawa "simply appointing candidates elected in the provinces" but that the problem was the unequal distribution of senators per province, which would take a consitutional amendment to change.[83] In April of 2003, Jean Charest's Liberal government took office in Quebec vowing that, although they were pro-federalist, they were also pro-Quebec, and would be pressing Ottawa for concessions on the federal spending power, tax room for Quebec, and realigning powers. The front runner in the federal Liberal leadership is known to be more sympathetic to provincial requests for institutional change.

There is a spirit of change in the air that has not been seen for some time. The time may be propitious for Newfoundland and Labrador to get its representational agenda in order.

The Basis of the Recommendations

Let us review the theoretical and practical considerations that have brought us to our recommendations. Some themes have emerged from the study.

1. There is a need for transparency. All stages of the decision-making process, as well as the evidence used at each stage, should be open to public view. This is a primordial point. An informed provincial public is the greatest protector of the province's interests.
2. Accountability must be furthered. Legislatures are the basis of responsible government. They must also form a part of the system of intergovernmental relations. This may involve a number of innovative mechanisms.
3. Political representation of Newfoundland and Labrador means both protecting its interests in a variety of federal institutional forums, and acting as a delegate of the provincial government, depending on the circumstances.
4. A representative federal bureaucracy means one that reflects both territorial and non-territorial identities. This implies the need for an explicit territorial or provincial representation policy.
5. The asymmetrical principle in federal-provincial relations should be pursued as a default approach. This means, in effect, seeking special intergovernmental arrangements made between the federal and provincial government which reflect the special needs of Newfoundland and Labrador. This of course will not be possible in all circumstances, and other philosophies or theories of federalism will have to be engaged.
6. Third-party or hybrid intergovernmental bodies may be useful additions to the Canadian system. International experience has shown that they take some of the acrimony out of intergovernmental relations, and increase the transparency of decision-making.
7. Lastly, there is only so much a province with 1.7 per cent of the Canadian population can do. The following recommendations are designed as a relatively modest group of suggestions in order to be realistic. It may be that a new era of constitutional change may come and these may be surpassed.

One can imagine both a long term and a short term strategy.

Long-term Strategies

In the long term, it seems evident that some past strategies may once again be germane.

1. Limited constitutional reform initiatives - that is, involving limited linkages or tradeoffs - should be a strategy for the Province. Since the demise of the last wave of constitutional reform, there have emerged no political arrangements the Province can use to countervail the power of Ottawa or of bigger provinces. Reform, fortunately, seems most likely in the area of Senate reform.
    a) Some sort of reformed upper house chosen on the basis of equal provincial representation would be useful. There should be both representation by population in the lower house and and equality of provinces in the upper house, similar to the pattern in many federations. The upper house should have powers to check and/or delay (suspend) federal legislation affecting provinces.

b) Some constitutionalized role for the province(s) in international relations should be contemplated, especially in trade or resource issues. Many other federal states allow this, notwithstanding Ottawa's theory of "one voice" in international affairs.

2. Some degree of asymmetrical arrangements should be pursued by exploring what aspects of the Ottawa-Newfoundland relationship could be changed by using section 43 of the amending formula in the *Constitution Act*, 1982.

Short-term Alternatives

General Federalism Issues

3. The province should adopt a more aggressive stance on federal representation issues. One could contemplate the issuance of "representational report cards," for example. These report cards would stress wins and losses for the province in terms of the federal relationship, and the relative fairness of the this province's share vis-a-vis those of other provinces, especially in Atlantic Canada. This would further both transparency, and accountability to the province's citizens.
4. Principles included in the SUFA should be included as elements of most Canada-Newfoundland intergovernmental agreements. SUFA-type principles like due notice, partnership, collaboration, performance management, fact-finding and mediation, and others provide the basis for a satisfactory code of ethics for intergovernmental relations. SUFA also provides procedures to ensure accountability.

Intergovernmental Forums

5. There should be an independent National Finance Commission to recommend on issues of fiscal federalism in Canada. There are various alternatives one could contemplate regarding the composition of this body, but some principles would prevail in its operation: a) the provinces would be able to make their case to it regarding the relative equity of federal and provincial fiscal resources b) there would be transparency in reporting of its recommendations and c) the public, and for that matter regional publics, would be enabled to provide analyses and recommendations regarding future arrangements. The Australian model would be studied for its lessons.
6. There should be an expansion of the CNOPB model (joint management) to other areas of federal competence; Newfoundland tends to benefit when the asymmetrical or co-management style of arrangement is followed. Likely candidates for future joint or co-management structures would seem to be the fisheries, regional economic development and culture.
7. The Province should lobby for the joint chair status for federal-provincial meetings in general, as a way of getting its concerns on the public policy agenda.

8. The Province should consider the advisability of introducing decision rules other than consensus - for example, qualified majorities - to various intergovernmental forums in order to safeguard the interests of smaller jurisdictions.
9. There should be a high-profile "Ottawa Office" opened by the Government of Newfoundland and Labrador to track federal policy developments potentially impacting upon the province and to lobby federal officials regarding the province's interests.

Senate Reform

The Standing Committee on Intergovernmental Affairs of the House of Assembly (recommended below) could examine and recommend upon the following three alternatives for short-term Senate reform:

10. With the cooperation of the Prime Minister, one member of each subsequent Newfoundland Cabinet could be chosen as the province's representative to the federal Senate, to assure a modest kind of legislative intergovernmentalism. Statute prevents members of a provincial house from sitting in the federal House of Commons, but there is no apparent interdiction against a provincial Assembly member from sitting in the Senate of Canada. A convention would develop that the senators so chosen would resign from the Senate in case of a change in the provincial party in power. This would be a modest version of the German arrangement, which sees Land executive members sitting in the Bundesrat. The individual chosen would be a kind of "delegate": the practice would allow a member of the provincial cabinet to keep track of the federal legislation affecting the province, and to report the province's positions to a federal institution. This would be an interim change until full-fledged Senate reform takes place.
11. The idea of Senate "elections" in Newfoundland and Labrador should be studied, along the lines of Alberta's (advisory) senate elections (which may have set some sort of precedent, since one of the "elected" senators ultimately was appointed to the Senate). This is one way, even if the province is not successful in having its "winning candidates" chosen for the Senate, to exert pressure on Ottawa for meaningful Senate reform, much as Alberta did in the 1980s and is starting to do again. The process of Senate elections will help crystallize the province's "interests," which other actors like the Premier, Ministers and M.P.s can go on to enunciate in other contexts.
12. If no innovative reform takes place in the appointment of senators, more modest alternative approaches could be attempted. The province could hold hearings when federal senators are chosen; citizens and members of the House of Assembly, especially those in the proposed Intergovernmental Affairs Committee (below) would brief Senators on provincial interests that senators should defend and policies that should be furthered. Another alternative is that the provincial Cabinet could establish a committee of "notables" to recommend on a list of appropriate Senatorial "candidates" from which the federal Crown could choose.

Legislative Reform

13. A Standing Committee on Intergovernmental Affairs of the House of Assembly should be established. It would study general intergovernmental affairs from a provincial perspective, monitor intergovernmental agreements and programs, invite testimony from the public and from officials, offer insights on current intergovernmental issues, and advise the provincial government. This would attend to some structural weaknesses in Canadian federalism, namely the lack of accountability (legislative involvement in federal-provincial relations), and the lack of a mechanism for inviting citizen involvement in federal-provincial matters. It would modernize "legislative intergovernmentalism" and place it more in line with citizen consultation and identity politics, and thus make it more legitimate.
14. The Standing Committee would be aided, in part, by the provincial Auditor General, who would do special studies to aid the work of the Standing Committee, much as he or she does for the Public Accounts Committee. Other staff would be made available to the Committee as needs would arise. (If the Standing Committee is not formed, the Auditor general could submit general reports directly to the legislature, as he or she now does in the case of the annual financial reporting, or directly to cabinet, as described below.) The legislative permission that would allow for this work is already found in s. 16 of the *Auditor General Act* of 1991:

> Special assignments
>
> 16. (1) The Auditor General may, where in his or her opinion such an assignment does not interfere with the Auditor General's primary responsibilities under this Act, whenever the Lieutenant-Governor in Council so requests or the House of Assembly or the Public Accounts Committee by resolution so requires, inquire into and report on a matter relating to the financial affairs of the province or to public property or inquire into and report on a person or organization that has received financial aid from the government of the province or in respect of which financial aid from the government of the province is sought.
>
> (2) Where the Auditor General makes a report in accordance with subsection (1), the Auditor General shall report back to either the Lieutenant-Governor in Council, the House of Assembly or the Public Accounts Committee (*Auditor General Act*, SNL 1991, chapter 22).

Federal-provincial "financial affairs" could fall under the rubric of s. 16. Legislative Auditors are greatly respected, and if the provincial Auditor General reported that the province was being treated inequitably, this would resonate widely. Such informed reporting would aid transparency and accountability immeasurably.

Cabinet Reform

15. Joint federal-provincial cabinet committees could be established on matters of outstanding importance. The precedent for this idea has already been established - in the 1990s - when an *ad hoc* joint cabinet committee composed of federal and provincial cabinet ministers was struck to deal with managing the cod fishery crisis. Such a reform would aid in the development of asymmetrical arrangements between Ottawa and the Province.
16. Political parties should take it upon themselves to recruit candidates who are expert in federal-provincial issues, and Prime Ministers should occasionally use their power to "appoint" outstanding local candidates in the province to the federal cabinet, who would subsequently submit themselves to the electorate.

Electoral Reform

17. The province should lobby for electoral reform which sees most Commons members elected in regular constituencies as at present in the SMP system, but with "provincial" or "supplemental" M.P.s added - or replacing a percentage of existing M.P.s - and to be distributed by party and by province on the basis of popular vote.
18. The form of electoral reform chosen should be done with the twin aims of increasing balanced regional and gender representation in political party caucuses.

Bureaucracy Reform

19. The province should lobby for a study of the provincial origins of workers in various parts of the federal public service, and especially its senior ranks, to assess the degree of territorial equity which is at play in hirings in the federal system. This is important in an era of expanding federal hirings and because of its implications for federal policy development. The study might also consider the advisability of having the federal government add some notion of a "territorially representative bureaucracy" to its general policy for under-represented regions, if such are discovered to exist.
20. Central agencies in Ottawa should be more "federalized" so that their makeup reflects geographic backgrounds as one criterion of the merit principle.
21. Candidates for decentralization of federal national department headquarters (e.g. Department of Fisheries and Oceans) should be publicly identified, and federal political parties should commit themselves to such targets, regardless of whether they are in or out of power.
22. Candidates for decentralization of regional Atlantic departmental/agency headquarters should be similarly identified and promoted.
23. The Prime Minister should consider appointing more deputy ministers from Newfoundland and Labrador.

24. Executive interchange programs between the federal and Newfoundland and Labrador public services should be aggressively expanded, in order to increase the probability of more senior appointments from this province in the federal service.

Memorial University

25. Memorial University should commit itself to establishing a Public Affairs Centre of Excellence, both by establishing new resources and by reorganizing existing programs. This Centre would offer graduate education and public service training in two streams: public administration and public policy. The centre would both enhance the level of training of provincial public servants and increase the possibilities that provincial residents would be attractive candidates for senior federal public service positions.
26. French Language training should be heightened at Memorial University as part of the Public Affairs programs to decrease the possibility that inadequate language skills will provide an impediment to senior and middle-management appointments.

Judicial Reform

27. A committee of interested parties and stakeholders (for example representatives of the legal profession, the Law Society, interested academics, the Canadian Bar Association - Newfoundland and Labrador branch - and so forth) should study the matter of the sufficiency of provincial representation in purely federal courts, and contemplate some innovative and effective ways of increasing it.

Endnotes

[1] This is the way that Kenneth Kernaghan interpreted his mandate in an analogous assignment from the Macdonald Royal Commission in 1985. See Kenneth Kernaghan, "Representative and Responsive Bureaucracy: Implications for Canadian Regionalism," in Peter Aucoin, Research Coordinator, Regional Responsiveness and the National Administrative State, Study #37 of the collected research studies, Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

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[3] Hanna F. Pitkin, *The Concept of Representation* (Berkeley and Los Angeles: The University of California Press, 1967) .

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[8] Kingsley, p. 278,

[9] Paul P. Van Riper, *History of the United States Civil Service* (Evanston: Row, Peterson, 1958), p. 552.

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[11] Arthur D. Larson, "Representative Bureaucracy and Administrative Responsibility: A Reassessment," *Midwest Review of Public Administration*, 7 (April, 1973): 79-89 at 87.

[12] Kenneth Kernaghan, "Representative and Responsive Bureaucracy: Implications for Canadian Regionalism," p. 11.

[13] Kenneth Kernaghan, "East Block and Westminster: Conventions, Values and Public Service," in Christopher Dunn, ed., *The Handbook of Canadian Public Administration* (Toronto: Oxford University Press Canada, 2002), p. 113.

[14] David Milne, "Equality or Asymmetry: Why Choose?" in Ronald L. Watts and Douglas M. Brown, eds., *Options for a New Canada* (Toronto: University of Toronto Press, 1991), p. 285.

[15] Peter H. Russell, *Constitutional Odyssey: Can Canadians Become a Sovereign People?* (Toronto: University of Toronto Press, 1993), second edition, p. 178.

[16] *Parliamentary Debates on the Subject of the Confederation of the British North American Provinces*, (Quebec: Hunter,Rose, 1865), pp. 35-36).

[17]. J.R. Mallory, *The Structure of Canadian Government*, rev. ed. (Toronto, Gage Publishing, 1984), p. 89.

[18] Mallory, Structure of Canadian Government, p. 91.

[19] Keith Archer et al., *Parameters of Power: Canada's Political Institutions* 3rd ed., (Scarborough, Ontario: Thomson Nelson, 2002), p. 246.

[20] *Courts Administration Service Act* S.C. Chapter 8 49-50-51 ELIZABETH II Assented to 27th March, 2002] http://www.parl.gc.ca/37/1/parlbus/chambus/house/bills/government/C-30/C-30_4/90155bE.html

[21] "Canada," in Herbert M. Kritzer, ed., *Legal Systems of the World: A Political, Cultural and Cultural Encyclopedia* (Santa Barbara, Denver and Oxford: ABC CLIO, 2002) p. 257.

[22] Canada, *Federal Court Act* Chapter F-7 R.S., c. 10(2nd Supp.), s. 5.

[23] *Courts Administration Service Act* S.C. Chapter 8 49-50-51 ELIZABETH II Assented to 27th March, 2002] http://www.parl.gc.ca/37/1/parlbus/chambus/house/bills/government/C-30/C-30_4/90155bE.html

[24] Auditor General of Canada, *Report on the Federal Court of Canada and the Tax Court of Canada*, August 1997. Conducted under the authority of order-in-council P.C. 1995-852 of May 30, 1995.

[25] In order to provide work environments that are conducive to the use of either language, workers are to be provided with appropriate work instruments and services, as well as access to automated data processing and data communication systems in either languages; and supervisors and management groups are to be able to communicate in both official languages with officers and employees of the institution (section 36).

[26] *Official Languages Act*, R.S.C. c. 31, s. 39(1).

[27] *An Act respecting employment equity*, ch. 31 S.C. 33-34-35 Elizabeth II, section 2.

[28] Canada, President of the Treasury Board, *Employment Equity in the Public Service, Annual Report 1994-95* (Ottawa: Minister of Supply and Services, 1996), p. ix. Hereafter cited as *Employment Equity in the Public Service*.

[29] "This [equity policy mentioned above] ensures that the Public Service better reflects the population it serves. The guiding principle of the Employment Equity Program also remains constant: employment opportunities must be open to all Canadians in a fair and equitable way." *Employment Equity in the Public Service*, p. ix.

[30] Donald V. Smiley and Ronald L. Watts, *Intrastate Federalism in Canada* (Toronto: University of Toronto Press, 1985).

[31] Canada West Foundation, 1978, as quoted in Smiley and Watts, *Intrastate Federalism in Canada*, p. 18.

[32] William P. Irvine, *Does Canada Need a New Electoral System?*, as quoted in Smiley and Watts, *Intrastate Federalism in Canada*, p. 19.

[33] Gordon Robertson, as quoted in Smiley and Watts, *Intrastate Federalism in Canada*, p. 20.

[34] See, for example Peter McCormick, Ernest C. Manning and Gordon Gibson, "Regional Representation in Canada," in J. Paul Johnson and Harvey E. Pasis, *Representation and Electoral Systems: Canadian Perspectives* (Scarborough, Ontario: Prentice-Hall Canada Ltd., 1990), pp. 101-102.

[35] R. K. Carty, "Three Party Systems: An Interpretation of the Development of National Politics," in Hugh G. Thorburn, ed., *Party Politics in Canada*, 7th ed., (Scarborough, ON: Prentice Hall, 1996).

[36] Herman Bakvis, *Regional Ministers: Power and Influence in the Canadian Cabinet* (Toronto: University of Toronto Press, 1991), p. 292.

[37] Donald V. Smiley, "Federalism and the Legislative Process in Canada", in William A. W. Neilson and James C. MacPherson, eds., *The Legislative Process in Canada: The Need for Reform*. (Toronto: Butterworth, 1978), p. 74.

[38] Michael M. Atkinson and David Docherty, "Moving Right Along: The Roots of Amateurism in the Canadian House of Commons", *Canadian Journal of Political Science* XXV:2 (June 1992), pp. 295-318.

[39] The Honourable Mark MacGuigan, Minister of Justice, *Reform of the Senate: A Discussion Paper*, Published by the Government of Canada (Ottawa: Publications Canada, 1983), p. 7.

[40] Peter McCormick, Ernest C. Manning and Gordon Gibson, "Regional Representation in Canada," p. 98 .

[41] Christopher Beattie, Jacques Desy and Stephen Longstaff, *Bureaucratic Careers: Anglophones and Francophones in the Canadian Public Service*, Royal Commission on Bilingualism and Biculturalism, Research Study 11 (Ottawa: Information Canada, 1972).

[42] Kenneth Kernaghan, "Representative and Responsive Bureaucracy: Implications for Canadian Regionalism," p. 22-24.

[43] David Kilgour, "Underrepresented in Ottawa," in *Policy Options*, November 1991; reprinted in *Policy Options*, December 2000, p. 31.

[44] Smiley and Watts, *Intrastate Federalism in Canada*, p. 88.

[45] David Kilgour, *Inside Outer Canada* (Edmonton: Lone Pine Publishing, 1990); Stephen G. Tomblin, *Ottawa and the outer provinces : the challenge of regional integration in Canada* / Stephen G. Tomblin. (Toronto : James Lorimer, 1995) .

[46] Correspondence from Wilson Hutchings, Director, Managerial Accounting Comptrollership 2-4-8, National Defence Headquarters, Ottawa Ontario, 19 July 2001.

[47] Frederick W. Rowe, *The Smallwood Era* (Toronto: McGraw-Hill Ryerson, 1985), pp. 181-183.

[48] Herman Bakvis, *Regional Ministers: Power and Influence in the Canadian Cabinet*, p. 72.

[49] Donald Savoie, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999), pp. 243, 76.

[50] Herman Bakvis, *Regional Ministers: Power and Influence in the Canadian Cabinet*, p. 276.

[51] Herman Bakvis, *Regional Ministers: Power and Influence in the Canadian Cabinet*, p. 298.

[52] These figures are derived from *Employment Statistics for the Federal Public Service*, Treasury Board of Canada Secretariat, 1995 - 1998.

[53] Diane E. Schmidt, *Expository Writing in Political Science: A Practical Guide* (New York: HarperCollins College Publishers, 1993), p. 37.

[54] *Ibid.*, p. 36.

[55] See, for example, Samuel V. LaSelva, *The Moral Foundations of Canadian Federalism: Paradoxes, Achievements, and Tragedies of Nationhood* (Montreal and Kingston: McGill-Queen's University Press, 1996).

[56] Andrew Heard, *Canadian Constitutional Conventions: The Marriage of Law and Politics* (Toronto: Oxford University Press, 1991), ch. 5.

[57] Sharon Sutherland and G. Bruce Doern, *Bureaucracy in Canada: Control and Reform* (Toronto: University of Toronto Press, 1985).

[58]. Canada, *Report of the Royal Commission on the Economic Union and Development Prospects for Canada*, Volume I (Ottawa, Minister of Supply and Services, 1985), pp. 399-400. (Hereafter cited as "Macdonald Report".)

[59] Canada, *Report of the Royal Commission on the Economic Union and Development Prospects for Canada*, Volume III (Ottawa, Minister of Supply and Services, 1985), pp. 265.

[60] Douglas M. Brown, *Market Rules: Economic Union Reform and Intergovernmental Policy-Making in Australia and Canada* (Montreal and Kingston: McGill-Queen's University Press, 2002), p. 234.

[61] Douglas M. Brown, *Market Rules*, ch. 8.

[62] *COAG* is comprised of the Prime Minister, state Premiers and Chief Ministers and the President of the Australian Local Government Association (ALGA). COAG is structured to allow the governments to discuss matters of national importance and to set out a strategy and action plan, part of which may involve implementation by a Ministerial Council. The *Treaties Council*, whose membership is the same as the COAG, and which has met only

once, is meant to focus on treaty negotiations affecting states and territories. The *Leaders Forum* is composed of states and territories leaders only, and serves as a goad to action by the Commonwealth. See Roger Wilkins and Cheryl Sauders, "Intergovernmental Relations in Australia," in J. Peter Meekison, *Intergovernmental Relations in Federal Countries: A Series of Essays on the Practice of Federal Governance* (Ottawa: The Forum of Federations, nd. (2002?).

[63] Intergovernmental coordination of financial arrangements is extensive in Australia. There are three intergovernmental institutions which bring together federal and state officials to negotiate or assess the various facets of federal finances. The *Premiers' Council* is a forum for the Commonwealth (federal) Prime Minister and state Premiers to deliberate transfer payments; the *Loans Council,* a body composed of Commonwealth and state representatives, coordinates Commonwealth and state borrowing according to a voting rule; and the *Commonwealth* is a commission of experts who advise the federal government on transfers.

[64] Margaret Biggs, *Building Blocks for Canada's New Social Union*, Working Paper no. F/02 (Ottawa: Canadian Policy Research Networks, 1996). See also Kathy O'Hara, *Securing the Social Union*, (Ottawa: Canadian Policy Research Networks, 1998), ch. 5.

[65] Douglas M. Brown, *Market Rules*, p. 216.

[66] *National coordination* features a plethora of bodies: the President's Coordinating Council, the Budget Council, the Council of Education Ministers (CEM), the Heads of Education Department Committee (HEDC), the Financial and Fiscal Commission, the Loan Coordinating Committee and the Local Budget Forum. See Nic Olivier, "Intergovernmental Relations in South Africa: Conflict Resolution within the Executive and Legislative Branches of Government," in J. Peter Meekison, *Intergovernmental Relations in Federal Countries*, pp. 71-90.

[67] At the national-provincial *departmental coordination* level, some interesting patterns have been tried. One concerns bodies - called MINMECs - which involve the relevant national minister and the appropriate Member of the Provincial Executive Council (MEC) and are often supported by technical bodies made up of officials from both levels of government. They coordinate policy development and implementation within specific functional areas. Another concerns *provincial coordinating structures* which in some cases are institutionalized in the provincial premier's office and coordinate intergovernmental relations.

[68] André Burelle, "A Renewed Canada to Which Québec Could Say 'Yes,'" *Canada Opinion* 4(1) (Montreal: Council for Canadian Unity, February 1996). This is cited in O'Hara, 1998, p. 59.

[69] Canada, *Shaping Canada's Future Together* (Ottawa: Minister of Supply and Services, 1991), p. 42.

[70] Government of Newfoundland and Labrador, *Change and Challenge: A Strategic Economic Plan for Newfoundland and Labrador*. (Queen's Printer. St. John's Newfoundland, 1992), Recommendation no. 96.

[71] *Canada-Newfoundland and Labrador Agreement on Labour Market Development*, signed March 24, 1997. See http://www.hrdc-drhc.gc.ca/ei/lma/nfld/tab_e.html

[72] The following material is collected from the relevant country chapters in Ann L. Griffiths, ed., *Handbook of Federal Countries, 2002* and Ronald L. Watts, *Comparing Federal Systems*, 2nd ed. (Kingston, Ontario: Institute of Intergovernmental Relations, Queen's University, 1999), ch. 9.

[73] Ronald L. Watts, *Comparing Federal Systems*, p. 95.

[74] Ronald L. Watts, "The Federative Superstructure," in Ronald L. Watts and Douglas M. Brown, *Options for a New Canada* (Toronto: University of Toronto Press, 1991), p. 334.

[75] Peter Russell, "Constitutional Reform of the Judicial Branch," in F.L. Morton, ed., Law, Politics and the Judicial Process in Canada , (Calgary: University of Calgary Press, 1984) pp. 91-92. See also, Peter Russell, *The Judiciary in Canada: The Third Branch of Government* (Toronto: McGraw-Hill Ryerson Limited, 1987), p. 121.

[76] Canada, Task Force on Canadian Unity, *A Future Together: Observations and Recommendations* (Ottawa: Minister of Supply and Services Canada, 1979; William Irvine, *Does Canada Need a New Electoral System?* Kingston: Queen's University Institute of Intergovernmental Relations, 1979; Kent Weaver, "Improving Representation in the Canadian House of Commons, *Canadian Journal of Political Science* Vol. 30, no. 3.

[77] Lisa Young, *Feminists and Party Politics*, (Vancouver: UBC Press, 2000).

[78] Leslie Seidle reminds us that a proposal by a Quebec government commission in 1984 to elect members to the National Assembly from party lists in 29 regional constituencies was abandoned after Parti Quebecois caucus opposition, "notably because it retained no single-member constituencies and broke entirely with the tradition of territorially-based representation." Leslie Seidle, *Electoral System Reform in Canada: Objectives, Advocacy and Implications for Governance*, Discussion Paper F/28, Family Network, Canadian Policy Research Networks, Prepared for the Law Commission of Canada, October 2002, p. 10.

[79] Peter H. Russell, *Constitutional Odyssey: Can Canadians Become a Sovereign People?* 2nd ed. (Toronto: University of Toronto Press, 1993).

[80] Christopher Dunn, "The Federal Spending Power," in Christopher Dunn, ed., *The Handbook of Canadian Public Administration* (Don Mills, Ontario: Oxford University Press, 2002), pp. 225-248.

[81] http://www.paulmartin.ca/index_eng.cfm

[82] "Dion critical of Klein's call for reform of Senate" *Edmonton Journal*, April 1, 2003.

[83] "Ottawa ready to discuss Senate reform: Dion revelation after Klein's firewall proposal." *National Post*, April 17, 2003.

Appendix 1

House of Commons
Representation Formula: Detailed Calculation for 2001 Census

SENATE SEAT ALLOCATION	SEATS 33rd PARL.	POPULATION (2001CENSUS)	DIVIDE BY NATIONAL QUOTIENT: 107,220 (ROUNDED)	ROUNDED RESULT	ADDITIONAL SEATS (SENATE CLAUSE)	ADDITIONAL SEATS (GRANDFATHER CLAUSE)	TOTAL SEATS	PROVINCIAL QUOTIENT (ROUNDED)
Newfoundland and Labrador								
6	7	512930	4784	5	1	1	7	73276
Prince Edward Island								
4	4	135294	1262	1	3	0	4	33824
Nova Scotia								
10	11	908007	8469	8	2	1	11	82546
New Brunswick								
10	10	729498	6804	7	3	0	10	72950
Quebec								
24	75	7237479	67501	68	0	7	75	96500
Ontario								
24	95	11410046	106417	106	0	0	106	107642
Manitoba								
6	14	1119583	10442	10	0	4	14	79970
Saskatchewan								
6	14	978933	9130	9	0	5	14	69924
Alberta								
6	21	2974807	27745	28	0	0	28	106243
British Columbia								
6	28	3907738	36446	36	0	0	36	108548
Provincial total								
102	279	29914315					305	
Nunavut								
1		26745					1	
North West Territories								
1	2	37360					1	
Yukon								
1	1	28674					1	
National Total								
105	282	3e+07					308	

REPRESENTATION FORMULA

The calculation is carried out in the following four steps:

1 — Allocation to the territories

Starting with 282 seats that the House of Commons of Canada had in 1985, one seat each is allocated to Nunavut, the Northwest Territories and the Yukon Territory, leaving 279 seats. This number is used to calculate the electoral quotient.

2 — Calculating the electoral district average (national quotient)

The total population of the 10 provinces is divided by 279 (the number obtained after allocating seats to the territories) to obtain the electoral quota or quotient, which is used to determine the number of seats for each province.

3 — Distributing the seats to each province

The theoretical number of seats to be allocated to each province in the House of Commons is calculated by dividing the total population of each province by the national quotient obtained in step 2. If the result leaves a remainder higher than 0.50, the number of seats is rounded up to the next whole number.

4 — Adjustments (special clauses)

After the theoretical number of seats per province is obtained, adjustments are made in a process referred to as applying the "senatorial clause" and "grandfather clause". Since 1915, the "senatorial clause" has guaranteed that no province has fewer members in the House of Commons than it has in the Senate. *The Representation Act, 1985*, brought into effect a new grandfather clause that guaranteed each province no fewer seats than it had in 1976 or during the 33rd Parliament.
SOURCE: Elections Canada, 2002

Appendix 2

Regional Distribution of Federal Cabinet Ministers at the Beginning of Each Ministry

	Atlantic	Quebec	Ontario	West	Total #, and % of these who were Atlantic Ministers	
Macdonald 1867	4	4	5	-	13	31%
Mackenzie 1873	5	3	6	-	14	36%
Macdonald 1878	5	4	4	1	14	36%
Laurier 1896	4	5	4	1	14	29%
Borden 1911	4	5	7	2	18	22%
Borden 1917	6	4	9	3	22	27%
Meighen 1920	5	3	6	3	17	29%
King 1921	4	6	6	3	19	21%
Bennett 1930	4	5	7	3	19	21%
King 1935	5	5	4	2	16	31%
St. Laurent 1948	4	6	7	3	20	20%
Diefenbaker 1957	8	3	6	4	21	38%
Pearson 1963	4	7	11	4	26	15%
Trudeau 1968	6	10	10	3	29	21%
Clark 1979	5	5	11	9	30	17%
Trudeau 1980	5	12	12	4	33	12%
Turner 1984	5	10	12	2	29	15%
Mulroney 1984	5	11	11	13	40	13%
Chrétien 1993	3	5	10	5	23	13%

Source: modified from Rand Dyck, *Canadian Politics: Critical Approaches*, 3rd ed. (Toronto: Thomson Nelson Learning, 2000), p. 491.

Appendix 3

Arguments For and Against Regionalization of the Federal Court and the Tax Court of Canada

Auditor General of Canada, 1997

259. Opinion on the merits of regionalization is divided. Most judges of both courts are opposed to regionalization. However, judges and counsel appearing before the courts provided arguments for and against regionalization. Those opposed to regionalization cited a number of arguments, to which proponents cited counterarguments. The views are presented below.

260. **Access to courts**. Proponents saw regionalization as a way to increase access to the courts, which is now affected by scheduling problems caused by travel from and to Ottawa. Proponents said that cases are sometimes hurried so that the judge can leave by the end of the day or week. With judges residing locally, travel requirements would no longer drive the court's schedule. In the Federal Court it would be easier to get a face-to-face meeting for urgent matters, and motions could be dealt with quickly rather than delayed until the next scheduled motion day. This argument was countered by opponents of regionalization, who argued that the same result could be achieved by simpler measures such as establishing a rota in Toronto and Montréal, as now exists in Vancouver. This would help ensure that a Federal Court judge would be readily available to deal with urgent matters such as injunctions. Another alternative could be to increase the numbers and mandates of prothonotaries and deputy judges. Opponents also argued that regionalization would do little to increase access in smaller centres, which would not have resident judges.

261. **Consistency of court decisions**. Opponents argued that regionalization could reduce the consistency of court decisions and practices. Consistency, they argued, is important because the courts are dealing with federal matters, which should be approached in a comparable manner across the country. In particular, judicial review of the decisions of federal tribunals and boards requires a high level of consistency. Any differences in decision-making could be magnified by the possibility of "judge shopping" - litigants could file suit in the location where they thought the judges would be most favourable to their arguments. Others, however, challenged this view by arguing that inconsistency already exists in decisions of the Tax Court and the Federal Court Trial Division, as one would expect in any court; any increase resulting from regionalization could be sorted out as it is now, at the Appeal Division. The courts could adopt rules to limit, although probably not eliminate, "judge shopping."

262. **Collegiality of judges**. Opponents to regionalization expressed concern that it would diminish collegiality among judges and that this, too, would have a negative impact on consistency. Many judges stressed the importance of having informal, ready access to colleagues for advice on difficult issues. There was concern, too, that the Quebec resident judges could become isolated because of language and Civil Code orientations, lessening the bilingual and bijural nature of the courts. Others disputed the need to have all judges in Ottawa as a means of maintaining collegiality. It was pointed out that since many judges are travelling at any one time, collegiality and consistency are not highly dependent on their presence in the National Capital Region. With modern telecommunications and periodic meetings of all judges, collegiality could be maintained.

263. **Role as national institutions**. There were concerns that regionalization would undermine the status of the courts as national institutions and they would eventually be supplanted by provincial superior courts. It was argued that a court dispersed throughout the provinces would lose its identity as a federal court at a time when the country needs to maintain national institutions. A court located in Ottawa that goes on circuit across the country was seen as the best way to maintain a strong federal judicial presence. Interestingly, others argued the opposite - that regionalization would enhance the courts' identity as national institutions by making them more responsive to the regional character of Canada.

264. **Relationship to local issues**. Proponents argued that regionalization would improve judges' familiarity with local issues and the local bar. But others argued that it would limit the number of judges before whom counsel would appear. Any interpersonal problems between local members of the bar and federal judges would become more serious, because each judge would hear a significant proportion of local cases. Others worried that too close a relationship between the local bar and federal judges might have a perceived or even real impact on the impartiality of decision making. Further, opponents were worried that regionalization could result in local "empires."

265. **Recruitment of judges**. Proponents argued that regionalization would increase the possibility that members of the bar from outside Ottawa would accept appointment to the courts, because relocation would no longer be required. Relocation was seen as more often difficult for persons with working spouses. Regionalization, then, would help ensure a regional and gender balance in the courts, and would counter a perception that the courts are "Ottawa" courts with many judges appointed who have been associated with the federal government. Others questioned whether relocation was so significant a factor that it would cause candidates truly interested in an appointment to a federal court to decline. Any difficulties in attracting good candidates were viewed as more likely the result of the lower profile of the federal courts relative to provincial superior courts; more attention to recruitment might have equal benefit.

266. **Travel by judges**. It was argued that regionalization would reduce the amount of travel by judges. Such a reduction would be important because, under proposed Federal Court case management rules requiring more regular contact between parties and judges, the need for travel may increase. The reduction in travel would reduce the stress and fatigue associated with the significant amount of travel that judges now face, as well as reduce concerns about the extensive travel by potential candidates for judgeships. Others countered that establishing a rota in Toronto and Montréal would also reduce judge travel - albeit not by as much as regionalization would - because judges would stay in those cities for longer periods. Travel could also be substantially reduced by using videoconferencing technology to hear routine matters. Indeed, other courts - notably the Australian Federal Court - use videoconferencing for the more demanding interaction involved in trials and other proceedings where witness credibility is at issue.

267. **Personal concerns of judges**. The judges of both courts were concerned that regionalization could impact adversely on the lives of some incumbent judges if they were required to relocate to Montréal, Toronto, Vancouver and other centres. It was suggested that such moves be voluntary for current judges but that new appointees not have an option.

268. **Waiving residency requirement**. Last, a change in legislation was suggested to allow judges to live outside the National Capital Region by waiving the residency requirement:

however, the judges would continue to hear cases across the country. We believe that this option could be tried on a case-by-case basis, if developing and maintaining a regional and gender balance on the court is a public policy priority. We note that the National Capital Region residency requirement was waived by amending the Tax Court of Canada Act to allow a specific judge, who was a member of the Tax Review Board when the Tax Court was established and who did not reside in the required location, to reside outside the National Capital Region. If regionalization of the courts is deemed desirable, then some judges suggested that the courts should experiment with judges residing in certain locations on a voluntary basis.

Source: Auditor General of Canada, *Report on the Federal Court of Canada and the Tax Court of Canada*, August 1997. Conducted under the authority of Order-in-Council P.C. 1995-852 of May 30, 1995.

www.oag-bvg.gc.ca/domino/other.nsf/html/fed_e.html#0.2.2Z141Z1.SCTV3V.4RRY7 E.M

Appendix 4

Region of Work for Departments and Agencies Coming Under Treasury Board Jurisdiction, March 2001

Region	Federal Public Employees	Percentage of Total
Newfoundland	3137	2.02
Prince Edward Island	1650	1.06
Nova Scotia	8516	5.48
New Brunswick	5906	3.8
Quebec (less NCR)	19199	12.36
NCR: Quebec	17062	10.98
NCR: Ontario	43916	28.27
Ontario (less NCR)	20069	12.92
Manitoba	6340	4.08
Saskatchewan	4319	2.78
Alberta	8487	5.46
British Columbia	14228	9.16
Yukon	486	0.31
NWT	546	0.35
Nunavut	119	0.07
Outside Canada	1380	0.89
Grand Total	155360	100 (rounded)

Source: Treasury Board of Canada Secretariat, *Employment Statistics for the Federal Public Service*, April 1, 2000 - March 31, 2001
http://www.tbs-sct.gc.ca/pubs_pol/hrpubs/pse-fpe/2000-2001/es-se00-01-06_e.html#_Toc1878939

Note: NCR stands for National Capital Region.

Departments and agencies that fall under Treasury Board jurisdiction

On March 31, 2001, the Treasury Board Pay System identified employees working in 65 different federal government departments and agencies listed under Schedule I, Part I of the *Public Service Staff Relations Act* (PSSRA), which grants the Treasury Board authority as a federal public service employer. These federal departments and agencies are shown in Table 7 in this section of the report.

Appendix 5

Change in Level of Federal Employees[1]
By Department in Newfoundland and Labrador Since 1995

DEPARTMENT	1995	1998	2002
Atlantic Canada Opportunities Agency[2]	61	57	95
Fisheries and Oceans	1807	1570	1700
National Defence[3]	865	146	140
Environment	83	60	69
Public Works and Government Services[4]	212	122	127
Passport Office	2	2	2
Citizenship and Immigration	21	15	17
Transport[5]	741	231	182
Canada Customs and Revenue Agency[6]	1109	976	1525
Canadian Heritage	20	20	20
Parks Canada	201	141	217
Corrections	32	26	29
Public Service Commission	3	4	5
Human Resources Development	947	787	832
Natural Resource-Canadian Forest Service[7]	81	29	22
Industry	43	27	35
Veterans' Affairs	40	34.5	29.5
Agriculture and Agrifood[8]	110	87	33
RCMP	134	127	130
Statistics Canada	8	7	0
Canada Food Inspection Agency[9]	0	130	130
Communication Canada	0	0	3
Health	12	17	18
Status of Women	1.5	1.5	1.5
Indian and Northern Affairs	0	0	4
Justice	0	0	18
Total[10]	**6533.5**	**4617**	**5528**

Notes

1. Employees include regular staff hired under the *Public Service Staff Relations Act*. It does not include contract employees.
2. About 30 per cent or 30 ACOA employees were contract in 1995 and 1998. Because they were contract they were not considered regular employees and they're not included in the table. After 2000, ACOA converted most of the contract staff to employee status. This accounts for most of the large increase.

3. Most of the decrease can be attributed to DND's ASD initiative, particularly at Goose Bay where services provided by federal staff are now done by a private company. Most of the effected staff found employment with the company.

4. Public Works through ASD acquired the services of a private company to maintain federal buildings. Most effected staff found employment with the company.

5. Major ASD initiatives on the privatization of air traffic control services and airport operations account for the major decrease here. Most effected federal employees found jobs with the private providers.

6. Much of the increase here can be attributed to transfer of provincial employees to the Tax Services Office as a result of the Harmonized Sales Tax initiative. Also, a country-wide redistribution of income tax services has resulted in a significant increase of work and employment at the St. John's Tax Centre.

7. The decrease here is actual. NRCan closed the regional Canadian Forest Service Office putting 59 employees out of work. A small district office reporting to the regional office in Fredericton, NB was opened in Corner Brook.

8. A considerable number of Agriculture food inspectors moved to the new Canadian Food Inspection Agency. This accounts for most of the reduction.

9. The Canadian Food Inspection Agency was formed from the amalgamation of the food inspection branches of a number of federal Departments including Health, Fisheries, and Agriculture and Agrifoods.

10. The overall reduction of employees between 1995 and 1998 is somewhat misleading. About 70 per cent or 1,340 employees moved to the private sector as part of the Federal Government's Alternative Service Delivery Initiative (ASD). The remainder moved out of the system through a number of means such as early retirement and relocation. Consequently, the actual job reduction resulting from the Program Review initiative was about 30 per cent or 576.5 employees. It should be noted, however, that the reductions in Newfoundland and Labrador were the highest of any province in the country.

It should also be noted that a considerable amount of the increase in employees from 1998 to 2002 is made up of short-term and seasonal staff associated with the Tax Centre. Conversely, a significant portion of those that left the public service and did not go to the private sector were higher paid, full-time employees.

Source: Federal Council for the Province of Newfoundland and Labrador, 2002

Appendix 6

Appointments to the Senate of Canada, Newfoundland and Labrador, 1949-2002

Name	Political Affiliation	Date of Appointment	Appointed on the advice of
BAKER, George S.	Liberal	2002.03.26	Chrétian, Jean
FUREY, George	Liberal	1999.08.11	Chrétian, Jean
COOK, Joan	Liberal	1998.03.06	Chrétian, Jean
ROMPKEY, William H.	Liberal	1995.09.22	Chrétian, Jean
OTTENHEIMER, Gerald Ryan (b. 1934.06.04, d. 1998.01.18)	Progressive Conservative	1987.12.30	Mulroney, Brian
COCHRANE, Ethel M	Progressive Conservative	1986.11.17	Mulroney, Brian
DOODY, C. William	Progressive Conservative	1979.10.03	Clark, Charles Joseph (Joe)
SQUIRES, Raymond G. (b. 1926.02.06)	Liberal	2000.06.09	Chrétian, Jean
LEWIS, Philip Derek (b. 1924.11.28)	Liberal	1978.03.23	Trudeau, Pierre Elliott
MARSHALL, Jack (b. 1919.11.26)	Liberal	1978.03.23	Trudeau, Pierre Elliott
ROWE, Frederick William (b. 1912.09.28, d. 1994.06.20)	Liberal	1971.12.09	Trudeau, Pierre Elliott
PETTEN, William John (b. 1923.01.28, d. 1999.03.06)	Liberal	1968.08.04	Pearson, Lester Bowles
DUGGAN, James (b. 1903.09.18, d. 1980.08.13)	Liberal	1966.07.08	Pearson, Lester Bowles
CARTER, Chesley William (b. 1902.07.29)	Liberal	1966.07.08	Pearson, Lester Bowles
COOK, Eric (b. 1909.07.26, d. 1986.08.23)	Liberal	1964.02.14	Pearson, Lester Bowles
HOLLETT, Malcolm Mercer (b. 1891.12.09, d. 1985.09.23)		1961.10.06	Diefenbaker, John George
HIGGINS, John Gilbert (b. 1891.05.07, d. 1963.07.01)		1959.01.15	Diefenbaker, John George
BRADLEY, Frederick Gordon (b. 1888.03.21, d. 1966.03.30)	Liberal	1953.06.12	Saint-Laurent, Louis
QUINTON, Herman William (b. 1896.10.26, d. 1952.04.02)	Liberal	1951.01.24	Saint-Laurent, Louis
PRATT, Calvert Coates (b. 1888.10.06, d. 1963.11.13)	Liberal	1951.01.24	Saint-Laurent, Louis
BASHA, Michael G. (b. 1896.01.20, d. 1976.11.26)	Liberal	1951.01.24	Saint-Laurent, Louis
BURKE, Vincent (b. 1878.08.03, d. 1953.12.19)	Liberal	1950.01.25	Saint-Laurent, Louis
BAIRD, Alexander Boyd (b. 1891.08.31, d. 1967.11.23)	Liberal	1949.08.17	Saint-Laurent, Louis
PENNY, George Joseph (b. 1897.10.24, d. 1949.12.04)	Liberal	1949.08.17	Saint-Laurent, Louis
PETTEN, Ray (b. 1897.06.01, d. 1961.02.16)	Liberal	1949.08.17	Saint-Laurent, Louis

Note: Between 1949 and 2002 there were 25 senatorial appointments from Newfoundland.

Appendix 7

Women Candidates in Federal Ridings in Newfoundland and Labrador, 1949-2000

Election/ Party	Liberal	Progressive Conservative	CCF-NDP	Reform/Alliance or Other	Total Number of Candidates
1949					15
1953		1			16
1957					14
1958					16
1962					19
1963		1			18
1965					22
1968			1		22
1972	1				25
1974	1		1		23
1979					21
1980			1	2- one Ind. and one M-L	25
1984	1		3		23
1988	1		2		23
1993	2*	1	3	2- one N.L.P. and one Ref.	30
1997	1		3		29
2000			2	One Ind	32
Total Candidates, 1949- 2000	**7**	**3**	**16**	**2 Ind., 1 M-L, 1 N,L.P. and 1 Reform**	**373**

Appendix 8

Women Elected to the Federal House of Commons From Newfoundland and Labrador Since 1949

Name	Political Affiliation at First Election	Constituency	Date of First Election
HICKEY, Patricia (Bonnie) (b. 1955.03.05)	Liberal	St. John's East, Newfoundland and Labrador	1993.10.25
PAYNE, Jean (b. 1939.05.12)	Liberal	St. John's West, Newfoundland and Labrador	1993.10.25

Total (2)

Appendix 9

Regional Ministers of Newfoundland and Labrador, Reverse Chronological List, 1949-2002

Minister	Parliamentary History	Portolio(s) & Date Appointed
BYRNE, Gerry (Liberal)	House of Commons Humber--St. Barbe--Baie Verte 1996.03.25 -	Minister of State (Atlantic Canada Opportunities Agency) 02.01.16 -
BAKER, George S. (Liberal)	Senate, Newfoundland and Labrador 2002.03.26 - House of Commons Gander--Twillingate 1974.07.08 - 1988.11.20 Gander--Grand Falls 1988.11.21 - 2002.03.25	Minister of Veterans Affairs 1999.08.03 - 2000.10.16 Secretary of State (Atlantic Canada Opportunities Agency) 1999.08.03 - 2000.10.16
MIFFLIN, Fred J. (Liberal)	House of Commons Bonavista--Trinity--Conception 1988.11.21 - 2000.11.26	Minister of Fisheries and Oceans 1996.01.25 - 1997.06.10 Minister of Veterans Affairs 1997.06.11 - 1999.08.02 Secretary of State (Atlantic Canada Opportunities Agency) 1997.06.11 - 1999.08.02
TOBIN, Brian Vincent (Liberal)	House of Commons Humber--Port au Port--St. Barbe 1980.02.18 - 1988.11.20 Humber--St. Barbe--Baie Verte 1988.11.21 - 1996.01.25 Bonavista--Trinity--Conception 2000.11.27 - 2002.01.25	Minister of Fisheries and Oceans 1993.11.04 - 1996.01.08 Minister for the Atlantic Canada Opportunities Agency 2000.10.17 - 2002.01.15 Minister of Industry 2000.10.17 - 2002.01.14 Minister of Western Economic Diversification 2000.10.17 - 2002.01.14 Minister responsible for the Economic Development Agency of Canada for the Regions of Quebec 2000.10.17 - 2002.01.14
REID, Ian Angus Ross (Progressive Conservative)	House of Commons St. John's East 1988.11.21 - 1993.10.24	Minister for the Atlantic Canada Opportunities Agency 1993.06.25 - 1993.11.03 Minister of Fisheries and Oceans 1993.06.25 - 1993.11.03
SIMMONS, Roger (Liberal)	House of Commons Burin--St. George's 1979.09.19 - 1984.09.03 Burin--St. George's 1988.11.21 - 1997.06.01	Minister of State (Mines) 1983.08.12 - 1983.08.22

ROMPKEY, William H (Liberal)	Senate North West River, Labrador 1995.09.22 - House of Commons Grand Falls--White Bay--Labrador 1972.10.30 - 1988.11.20 Labrador 1988.11.21 - 1995.09.21	Minister of National Revenue 1980.03.03 - 1982.09.29 Minister of State (Small Businesses and Tourism) 1982.09.30 - 1983.08.11 Minister of State (Mines) 1984.01.10 - 1984.06.29 Minister of State (Transport) 1984.06.30 - 1984.09.16
CROSBIE, John Carnell (Progressive Conservative)	House of Commons St. John's West 1976.10.18 - 1993.10.24	Minister of Finance 1979.06.04 - 1980.03.02 Minister of Justice and Attorney General of Canada 1984.09.17 - 1986.06.29 Minister of Transport 1986.06.30 - 1988.03.30 Minister for International Trade 1988.03.31 - 1991.04.20 Minister for the purposes of the Atlantic Canada Opportunities Agency Act 1991.04.21 - 1993.06.24 Minister of Fisheries and Oceans 1991.04.21 - 1993.06.24
MCGRATH, James Aloysius (Progressive Conservative)	House of Commons St. John's East 1957.06.10 - 1963.04.07 St. John's East 1968.06.25 - 1986.08.31	Minister of Fisheries and Oceans 1979.06.04 - 1980.03.02
JAMIESON, Donald Campbell (Liberal)	House of Commons Burin--Burgeo 1966.09.19 - 1979.05.21 Burin--St. George's 1979.05.22 - 1979.06.18	Minister of Defence Production 1968.07.06 - 1969.03.31 Minister of Supply and Services 1969.04.01 - 1969.05.04 Minister of Transport 1969.05.05 - 1972.11.26 Minister of Regional Economic Expansion 1972.11.27 - 1975.09.25 Minister of Industry, Trade and Commerce 1975.09.26 - 1976.09.13 Secretary of State for External Affairs 976.09.14 - 1979.06.03
GRANGER, Charles Ronald McKay (Liberal)	House of Commons Grand Falls--White Bay--Labrador 1958.03.31 - 1966.08.01	Minister without Portfolio 1967.09.25 - 1968.04.19 Minister without Portfolio 1968.04.20 - 1968.07.05
BROWNE, William Joseph (Progressive Conservative)	House of Commons St. John's West 1949.06.27 - 1953.08.09 St. John's West 1957.06.10 - 1962.06.17	Minister without Portfolio 1957.06.21 - 1960.10.10 Solicitor General of Canada 1960.10.11 - 1962.08.09

PICKERSGILL, John Whitney (Liberal)	House of Commons Bonavista--Twillingate 1953.08.10 - 1967.09.18	Secretary of State of Canada 1953.06.12 - 1954.06.30 Minister of Citizenship and Immigration 1954.07.01 - 1957.06.20 Secretary of State of Canada 1963.04.22 - 1964.02.02 Leader of the Government in the House of Commons 1963.05.16 - 1963.12.21 Minister of Transport 1964.02.03 - 1967.09.18
BRADLEY, Frederick Gordon (Liberal)	Senate Bonavista-Twillingate 1953.06.12 - 1966.03.30 House of Commons Bonavista--Twillingate 1949.06.27 - 1953.06.11	Secretary of State of Canada 1949.04.01 - 1953.06.11

Note: Although Secretaries of State in the current Parliament are all sworn of the Privy Council, they are not Cabinet portfolios.
Source: Library of Parliament, Information and Documentation Branch

Appendix 10

Federal Deputy Ministers Since Confederation (1867) Born in Newfoundland

If we consider "born in":
Out of the 392 different people benefiting from one or more appointments at DM level from 07-01 1867 to June 30th 2001, three were born in Newfoundland:

1. LASH, Zibulon Aiton, b. 01-09-1846
2. PEDLEY, Francis, b. 25-06-1858
3. MAY, Arthur William, b. 26-06-1932.

There were some 26 cases of UNKNOWN place of birth.
Source: Personal databank of Jacques Bourgault, academic expert on federal deputy ministers, UQAM, 2002.

Appendix 11

Present and Former Judges of the Federal Court of Canada

Present Judges of the Federal Court of Canada

The Chief Justice

The Honourable John D. Richard

The Associate Chief Justice

The Honourable Allan Lutfy

Court of Appeal

The Honourable Arthur J. Stone*
The Honourable Barry L. Strayer*
The Honourable Alice Desjardins*
The Honourable Robert Décary
The Honourable Allen M. Linden*
The Honourable Julius A. Isaac*
The Honourable Gilles Létourneau
The Honourable Marshall E. Rothstein
The Honourable Marc Noël
The Honourable Marc Nadon
The Honourable J. Edgar Sexton
The Honourable John Maxwell Evans
The Honourable Karen Sharlow
The Honourable J.D. Denis Pelletier
The Honourable J. Brian D. Malone

* Supernumerary

Trial Division

The Honourable Paul Rouleau*
The Honourable James K. Hugessen*
The Honourable Yvon Pinard, P.C.
The Honourable Max M. Teitelbaum*
The Honourable W. Andrew MacKay*
The Honourable Donna McGillis
The Honourable Frederick E. Gibson
The Honourable Sandra J. Simpson
The Honourable Danièle Tremblay-Lamer

The Honourable Douglas R. Campbell
The Honourable Pierre Blais, P.C.
The Honourable François Lemieux
The Honourable John A. O'Keefe
The Honourable Elizabeth Heneghan (Newfoundland and Labrador)
The Honourable Dolores Hansen
The Honourable Eleanor R. Dawson
The Honourable Edmond P. Blanchard
The Honourable Michael A. Kelen
The Honourable Michel Beaudry
The Honourable Luc Martineau
The Honourable Carolyn Layden-Stevenson
The Honourable Simon Noël
The Honourable Judith A. Snider

* Supernumerary

Former Judges of the Federal Court of Canada

http://www.fct-cf.gc.ca/about/history/former_judges_e.shtml

Former Chief Justices	**Period of Appointment**
The Honourable Wilbur R. Jackett	71/06/01 - 79/10/01
The Honourable Arthur L. Thurlow	80/01/04 - 88/05/05
The Honourable Frank Iacobucci	88/09/02 - 91/01/06
The Honourable Julius A. Isaac	91/12/24 - 99/09/01
Former Associate Chief Justices	
The Honourable Camilien Noël	71/06/01 - 75/07/04
The Honourable Arthur L. Thurlow	75/12/04 - 80/01/03
The Honourable James Alexander Jerome	80/02/18 - 98/03/04
The Honourable John D. Richard	98/06/23 - 99/11/03
Former Judges of the Court of Appeal	
The Honourable Jacques Dumoulin	71/06/01 - 72/12/01
The Honourable Arthur L. Thurlow	71/06/01 - 75/12/03
The Honourable Louis Pratte	73/01/25 - 99/01/01
The Honourable John J. Urie	73/04/19 - 90/12/15
The Honourable William F. Ryan	74/04/11 - 86/08/01
The Honourable Gerald Le Dain	75/09/01 - 84/05/28
The Honourable Darrel V. Heald	75/12/04 - 94/08/27

The Honourable Patrick M. Mahoney	83/07/18 - 94/10/31
The Honourable Louis Marceau	83/07/18 - 00/05/01
The Honourable Marc R. MacGuigan	84/06/29 - 98/01/12
The Honourable Bertrand Lacombe	85/10/29 - 89/12/07
The Honourable Joseph Robertson	92/05/13 - 00/07/27
The Honourable Francis J. McDonald	93/04/01 - 01/09/06

Former Judges of the Trial Division

The Honourable Alexander Cattanach	71/06/01 - 84/07/26
The Honourable Hugh F. Gibson	71/06/01 - 81/12/14
The Honourable Allison Walsh	71/06/01 - 86/06/30
The Honourable Roderick Kerr	71/06/01 - 75/09/01
The Honourable Louis Pratte	71/06/10 - 73/01/24
The Honourable Darrel V. Heald	71/06/30 - 75/12/03
The Honourable Frank U. Collier	71/09/16 - 92/12/31
The Honourable Patrick M. Mahoney	73/09/13 - 83/07/17
The Honourable Raymond G. Décary	73/09/13 - 84/01/31
The Honourable George A. Addy	73/09/17 - 90/09/28
The Honourable Jean-Eudes Dubé	75/04/09 - 01/11/06
The Honourable Louis Marceau	75/12/23 - 83/07/17
The Honourable John McNair	83/07/18 - 90/08/31
The Honourable Francis C. Muldoon	83/07/18 - 01/09/04
The Honourable Barbara Reed	83/11/17 - 00/07/22
The Honourable Pierre Denault	84/06/29 - 01/11/01
The Honourable Louis-Marcel Joyal	84/06/29 - 98/12/31
The Honourable Bud Cullen	84/07/26 - 00/08/31
The Honourable Leonard Martin (Newfoundland and Labrador)	**85/10/29 - 91/10/2**
The Honourable Howard Wetston	93/06/16 - 99/01/11
The Honourable William P. McKeown	93/04/01 - 02/09/01

Source: Federal Court

Appendix 12

Judges of the Tax Court of Canada

The Court consists of the Chief Judge, the Associate Chief Judge and 21 other judges including 4 supernumerary judges.
The members of the Tax Court of Canada are as follows:

Chief Judge

The Honourable Alban Garon

Associate Chief Judge

The Honourable Donald G.H. Bowman

Judges (in order of seniority)

The Honourable Michael J. Bonner*
The Honourable Alexander A. Sarchuk*
The Honourable Gerald J. Rip
The Honourable Gordon Teskey*
The Honourable Murray A. Mogan*
The Honourable Louise Lamarre Proulx
The Honourable David W. Beaubier
The Honourable Theodore E. Margeson
The Honourable Pierre R. Dussault
The Honourable Ronald D. Bell
The Honourable Terrence O'Connor
The Honourable Pierre Archambault
The Honourable Cameron Hugh McArthur
The Honourable Lucie Lamarre
The Honourable Alain Tardif
The Honourable Eric A. Bowie
The Honourable Joe E. Hershfield
The Honourable Diane Campbell
The Honourable Campbell J. Miller
The Honourable François M. Angers
The Honourable Leslie M. Little

*Supernumerary Judge
Deputy Judges not included
Source: Tax Court of Canada

Appendix 13

Institutions for Co-Decision in Australia

Excerpted from Douglas M. Brown, Market Rules
(Montreal, Kingston: McGill-Queen's, 2002)

Figure 13-1
First Ministers and the Whole-of-Government Coordination in Australia

First Ministers' Level Forums	First Ministers Forums • Financial Premiers Conferences • Special Premiers Conferences • Council of Australian Governments	Treaty Council	Leaders Forum
Officials Level	• Working Groups • COAG Steering Committee	Standing Committee on Treaties	
Ministerial Level	• Ministerial Councils • Standing Committees and Task Forces		

Figure 13-2
Institutions for Co-Decision in Australia

Ministerial Councils with legislated decision-making mandates -- including voting rules

- Australian Loan Council
- Australia-New Zealand Food Standards Council
- Ministerial Council on Corporations
- Ministerial Council on Financial Institutions
- Ministerial Council on the Australian National Training Authority
- National Environmental Protection Council
- Australian Transport Council
- Ministers authorized to act with respect to the Mutual Recognition scheme
- Ministers authorized to act with respect to the National Competition Council
- Ministerial Council on Reform of Financial Relations [GST]

Figure 13-3
Joint or Uniform Legislation Schemes in Australia

Field	Type of Scheme
mutual recognition	referral of powers to Commonwealth (some states)
companies	adoption of uniform Commonwealth template
non-bank financial institutions	adoption of uniform Queensland template
disabilities services	complementary
competition	adoption of uniform New South Wales template -- cooperative
road transport	cooperative

Figure 13-4
New National Agencies in Australia

Agency	Type
Australian National Training Authority	Commonwealth-State
Australian Financial Institutions Commission	States only
National Food Authority	Commonwealth-State
National Environmental Protection Council	Commonwealth-State
Australian Competition and Consumer Council	Commonwealth
National Competition Council	Commonwealth-State
National Rail Corporation*	Commonwealth-State
National Road Transport Commission	Commonwealth-State
* Share-holders	

Appendix 14

Senate Composition Schemes, 1972-1990

	Current		Joint Committee, 1972		Bill C-60, 1978		British Columbia, 1978		Task Force, 1979		Ont. Adv. Comm., 1978-79		Quebec Beige Paper, 1980	
	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region
Nfld	6 -5.8	30 -28.8	6 -4.6	30 -23	8 -6.8	32 (27.1)	3 -5	12 -20	4 -6.7	14 -23.3	2 -6.7	7 -23.3	3 -3.8	13 (16.3)
PEI	4 -3.8		4 -3		4 -3.4		3 -5		2 -3.3		1 -3.3		2 -2.5	
NS	10 -9.6		10 -7.7		10 -8.5		3 -5		4 -6.7		2 -6.7		4 -5	
NB	10 -9.6		10 -7.7		10 -8.5		3 -5		4 -6.7		2 -6.7		4 -5	
Que	24 -23	24 -23	24 -18.5	24 -18.5	24 -20.3	24 -20.3	12 -20	12 -20	12 -20	12 -20	6 -20	6 -20	20 -25	20 -25
Ont	24 -23	24 -23	24 -18.5	24 -18.5	24 -20.3	24 -20.3	12 -20	12 -20	12 -20	12 -20	6 -20	6 -20	20 -25	20 -25
Man	6 -5.8	24 -23	12 -9.2	48 -37	8 (6.8)	36 -30.5	4 -6.7	12 -20	4 -6.7	22 -36.7	2 -6.7	11 -36.7	5 -6.3	27 -33.8
Sask	6 -5.8		12 -9.2		8 -6.8		4 -6.7		4 -6.7		2 -6.7		5 -6.3	
Alta	6 -5.8		12 -9.2		10 -8.5		4 -6.7		6 -10		3 -10		8 -10	
BC	6 -5.8		12 -9.2		10 -0.8		12 -20	12 -20	8 -13.3		4 -13.3		9 -11.3	
YK, NT	2 -1	2 -1.9	2 -1.5	4 -3	1 -0.8	2 -1.7	- -	- -		- -	- -	- -	- -	- -
Nunavu	1 -1		2 -1.5		1 -100		- -		- -		- -		- -	
Total	105 -100	104 -100	130 (100)	130 -100	118 -100	118 -100	60 -100	60 -100	60 -100	60 -100	30 -100	30 -100	80 -100	80 -100

Prov	Canada West, 1981		Joint Committee, 1984		Alberta Comm, 1985		MacDonald Comm., 1985		Newfoundland, 1989		Ghiz Proposal, 1990		Ottawa, June 1990	
	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region	by province	by region
Nfld	6 -9.7	24 -38.7	12 -8.3	42 -29.2	6 -9.4	24 -37.5	12 -8.3	42 -29.2	10 -9.6	40 -38.5	10 -8	35 -28	8 -7.7	28 -26.9
PEI	6 -9.7		6 -4.2		6 -9.4		6 -4.2		10 -9.6		5 -4		4 -3.8	
NS	6 -9.7		12 -8.3		6 -9.4		12 -8.3		10 -9.6		10 -8		8 -7.7	
NB	6 -9.7		12 -8.3		6 -9.4		12 -8.3		10 -9.6		10 -8		8 -7.7	
Que	6 -9.7	6 -9.7	24 -16.7	24 -16.7	6 -9.4	6 -9.4	24 -16.7	24 -16.7	10 -9.6	10 -9.6	24 -19.2	24 -19.2	24 -23.1	24 -23.1
Ont	6 -9.7	6 -9.7	24 -16.7	24 -16.7	6 -9.4	6 -9.4	24 -16.7	24 -16.7	10 -9.6	10 -9.6	24 -19.2	24 -19.2	18 -17.3	18 -17.3
Man	6 -9.7	24 -38.7	12 -8.3	48 -33.3	6 -9.4	24 -37.5	12 -8.3	48 -33.3	10 -9.6	40 -38.5	10 -8	40 -32	8 -7.7	32 -30.8
Sask	6 -9.7		12 -8.3		6 -9.4		12 -8.3		10 -9.6		10 -8		8 -7.7	
Ata	6 -9.7		12 -8.3		6 -9.4		12 -8.3		10 -9.6		10 -8		8 -7.7	
BC	6 -9.7		12 -8.3		6 -9.4		12 -8.3		10 -9.6		10 -8		8 -7.7	
Ykn	1 -1.6	2 -3.2	2 -1.3	6 -4.2	2 -3.1	4 -6.3	3 -2	6 -4.2	2 -1.9	4 -3.8	1 -0.8	2 -1.6	1 -1	2 -1.9
NWT	1 -1.6		4 -2.8		2 -3.1		3 -2		2 -1.9		1 -0.8		1 -1	
Total	62 -100	62 -100	144 -100	144 -100	64 -100	64 -100	144 -100	144 -100	104 -100	104 -100	125 -100	125 -100	104 -100	104 -100

Source: Canada: Responsive Instiotutions for a Modern Canada (Ottawa: Supply and Services Canada, 1991), p. 14.

Appendix 15

Variations in the Selection, Composition, Powers, and Role of Second Chambers in Federations, 1990s

Selection	Composition	Powers	Role
Appointment by federal government (no formal consultation) e.g. Canada 1867, Malaysia 40% of seats)	Equal "regional" representation (e.g. Canada for groups of provinces)	Absolute veto with mediation committees (e.g. USA, Switzerland)	Legislative chamber only (e.g. Canada, USA, Switzerland, Australia, Austria, India, Malaysia)
Appointment by federal government based on nominations by provincial governments (e.g. Canada, Meech Lake Accord)	Equal state representation (e.g. USA, Australia, and 60% of Malaysian senate)	Absolute veto on federal legislation affecting any state administrative function (e.g. Germany)	Combined legislative and intergovernmental role (e.g. Germany, South Africa)
Appointment ex officio by state governments (e.g. Germany, Russia's Federation Council, as of 2002)	Two categories of cantonal representation (e.g. Switzerland)	Suspensive veto: time limit (e.g. Malyasia, Spain)	
Indirect election by state legislatures (e.g. USA 1789-1912, India, Malaysia 60% of seats, Austria, South Africa)	Weighted state voting: four categories (e.g. Germany)	Deadlock resolved by joint sitting (e.g. India)	
Direct election by simple plurality (e.g. USA since 1913)	Weighted state representation: multiple categories (e.g. Austria, India)	Deadlock resolved by joint sitting (e.g. India)	
Direct election by proportional representation (e.g. Switzerland de facto, Australia)	Additional or special representation for others including aboriginals (e.g. Malaysia, India)	Deadlock resolved by double dissolution then joint sitting (e.g. Australia)	
Choice of method left to cantons (e.g. Switzerland)	A minority of regional representatives (e.g. Belgium, Spain)	Money bills: brief suspensive veto (e.g. India, Malaysia)	
Mixed (e.g. Malaysia, Belgium, Spain)			

Source: Modified from Ronald L. Watts, *Comparing Federal Systems in the 1990s*, 2nd ed., (Kingston: Institute of Intergovernmental Relations), p. 85.

Appendix 16

Number of Members in Upper Houses in Federations Around the World

Federal State	Name of Upper House/ Lower House (# in each house)	Number of Provinces, States, Territories, etc.	# Members in Upper House by State (where applicable # for each territory, or highest & lowest #)
Argentina	Senado de la Nación/Cámara de Diputados de la Nación (72/257)	22 1 Federal District 1 National Territory 5 Regions	3 for each of the 22 states
Australia	Senate/House of Representatives 76/148	6 States 1 Capital Territory 1 Mainland Territory [7 External Territories]	12 for each state 2 for each of the 2 Territories
Austria	Bundesrat/Nationalrat (64/183)	9 States	Lower Austria 12, Burengland 3
Belgium	Senate/Chamber of Deputies (71/150)	10 Provinces, 3 Regions, 3 Communities	40 directly elected; of the 31 indirectly elected, 10 from each of the French and Flemish Community Councils, 1 from the German, and 10 appointed by Senators.
Bosnia and Herzegovina	Dom Narodu/ Zastupnicki dom-Predstavnicki dom (House of Peoples/House of Representatives) 15/42	2 Administrative Divisions	10 Bosniac/Croat Federation 5 Republika Srpska
Brazil	Senado Federal/Camara dos Deputados (81/513)	26 States 1 Federal District	Each state has 3 seats
Canada	Senate/House of Commons (105/301)	10 Provinces 3 Territories	Each region has equal representation (24), each territory 1; but Ontario and Quebec considered regions
Comoros	Senate/Assemblée Fédérale (15/42)	3 islands	5 from each island
Ethiopia	Yefederesh Mekir Bet/ Yehizbtéwekayoch Mekir Bet (House of Federation/House of Peoples' Representatives) (112/548)	9 Member States/Regional States 2 Chartered Cities	n/a
Germany	Bundesrat/Bundestag (69/ 656)	16 States (Länder)	16 states have multi-seat representation, range 3-6 per state
India	Rajya Sabha/Lok Sabha (250/545)	28 States 6 Union Territories 1 National Capital Territory	Uttar Pradhesh 34, Goa 1 12 appointed by President

Malasyia	Dewan Negara/Dewan Rakyat (69/193)	13 States 2 Federal Territories	Of the 26 elected members, each state elects 2 (43 are appointed)
Mexico	Cámara Federal de Diputados/Cámara de Senadores (128/500)	31States 1 Federal District	Each of the states and the Federal District elects 3 senators for a total of 96; 32 chosen by PR at large
Nigeria	Senate/House of Representatives (109/360)	36 States 1 Territory	36 3-seat constituencies 1 from territory (Abuja)
Russia	Federation Council/State Duma (178/450)	89 constituent units (21 Republics, 49 Provinces, 10 Districts, 6 Territories, 2 Federal Cities of Federal Significance, 1 Jewish Autonomous Province)	2 delegates from each constituent unit
South Africa	National Council of Provinces/National Assembly (90/400)	9 Provinces	10 for each Province
Spain	Senado/Congreso de Diputados (259/350)	17 Autonomous Communities (ACs)	208 elected seats in the in the ACs; most constituencies have 4 representatives; the 51 appointed seats in the ACs range from 1 to 8
Switzerland	Ständerat/Nationalrat (46/200)	26 Cantons (20 Full Cantons, 6 Half Cantons)	2 from each of the 20 Full Cantons, 1 from each Half
United States of America	Senate/House of Representatives (100/435)	50 States Variety of other territories	Each State has 2 Senators
Venezuela	Unicameral: Asamblea Nacional	23 States 1 Federal District 1 Federal Dependency	n/a
Yugoslavia	Vece Republika/Vece Gradjana (Council of the Republics/ Council of Citizens) (40/138)	2 Republics: Montenegro and Serbia	Each republic has 20 members in the upper house, the Council of the Republics

Source: Derived by author from data provided in *Handbook of Federal Countries, 2002* (Ottawa: Forum of Federations, 2002)

Appendix 17

Estimated Expenditures by Province, Canada Only, Department of National Defense, 1996-1997 to 2000-2001

	1996-1997			1997-1998			1998-1999			1999-2000			2000-2001		
Prov./ Terr.	**% of CA Pop**	**DND Exp in $M**	**Exp as % total**	**% of Cdn Pop**	**DND Exp in $M**	**Exp as % total**	**% of Cdn Pop**	**DND Exp in $M**	**Exp as % total**	**% of Cdn Pop**	**DND Exp in $M**	**Exp as % total**	**% of Cdn Pop**	**DND Exp in $M**	**Exp as % total**
NL	1.9	90	1	1.9	107	1.3	1.8	122	1.4	1.8	115	1.2	1.8	118	1.2
PEI	0.5	7	0.1	0.5	7	0.1	0.5	8	0.1	0.5	10	0.1	0.5	56	0.6
NS	3.2	864	9.7	3.1	846	10	3.1	883	10	3.1	903	9.2	3.1	895	9.4
NB	2.6	359	4	2.5	294	3.5	2.5	287	3.3	2.5	293	3	2.5	287	3
QC	24.7	2066	23.1	24.4	1827	21.5	24.1	1998	22.7	24.1	2085	21.2	24	1787	18.8
ON	37.3	3795	42.4	37.7	3697	43.5	37.8	3781	42.9	37.8	4498	45.7	37.9	4547	47.7
MB	3.9	320	3.6	3.8	369	4.3	3.7	348	3.9	3.8	359	3.6	3.7	263	2.8
SK	3.4	85	1	3.4	76	0.9	3.4	79	0.9	3.4	69	0.7	3.3	73	0.8
AB	9.3	802	9	9.4	735	8.6	9.7	774	8.8	9.7	833	8.5	9.7	826	8.7
BC	12.9	541	6	13	524	6.2	13.2	504	5.7	13.2	635	6.5	13.2	642	6.7
YK	0.3	13	0.1	0.3	16	0.2	0.3	26	0.2	0.2	31	0.3	0.2	32	0.3
NUN										0.1	7	0.1		3	0

Source: Department of National Defence, Finance and Corporate Services (http://www.forces.gc.ca/admfincs/financial_docs/)

Appendix 18

DND Personnel, Regular, Civilian and Reserve by Province in Canada, 1996-1997 and 2000-2001

Province	1996-1997			2000-2001		
	Regular	**Civilian**	**Reserve**	**Regular**	**Civilian**	**Reserve**
NL	743	461	966	615	130	1175
PEI	51	13	314	45	7	355
NS	10190	4032	2652	8849	2955	3008
NB	3404	656	1586	3404	786	1494
QC	11214	3973	8152	9028	3680	7409
ON	18954	6525	8641	17197	7050	11448
MB	3204	1042	1472	2435	832	1346
SK	1017	367	943	584	180	833
AB	7674	1863	2264	6421	1808	2703
BC	5782	2391	2511	4984	2079	2850
YK & NWT	93	11	0	119	13	36
NUN					1	2

Source: Department of National Defence, Finance and Corporate Services
(http://www.forces.gc.ca/admfincs/financial_docs/)

Royal Commission on Renewing
and Strengthening Our Place in Canada

Atlantic Region Integration Options

— Stephen Tomblin

March 2003

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Contents

Executive Summary 113
Introduction: Placing the Regional Integration in Context 113
How and When Regime Changes Occur? 116
Disagreements Over the Nature and Effectiveness of Regionalization 116
Contest Over Regional Integration 117
Modernization and the Quest for a New Approach 118
Patterns of Convergence and Divergence: Overview 128
Effectiveness of Existing Regional Structures and Mechanisms 129
Federal Government's Role as a Silent Partner in the Confederation 130
Summary: Where Should We Go From Here? 132

Bibliography 137

Executive Summary

Newfoundland and Labrador finds itself at an important cross-roads in the 21st century and there is much pressure to renew her position within the larger federation. One option might be to strengthen cooperative relations with the Maritime provinces and find new forms of integration and interaction. For some, in an era of globalization it makes sense to redraw boundaries and reinvent state-society relations in a way that would produce new forms of innovation. For others, such diffusionist ways of thinking and prescriptive approaches to change underestimate the value of existing provincial identities, processes, and institutions. The long history of struggle over the regional integration idea provides an indication of the various challenges associated with effecting these kinds of changes in province-centred systems.

In order to facilitate a productive debate on this option, the paper discussed various related territorial, jurisdictional and institutional issues for the purpose of generating new insights that can be used to inform the recommendations of the Royal Commission. These included: the history of struggle over the regional concept; the pros and cons of regionalization; the extent to which old ideas, processes and institutions have influenced outcomes; effectiveness of existing elitist regional intergovernmental structures; and the influence of external forces on the drive to strengthen cross-border regional interaction and cooperation. It is important to stress that the work draws upon a neo-institutional framework to generate new critical insights on the future for regional integration within the current system of embedded political ideas, processes, and institutions. The intent is not to devalue or ignore the role of geography, history, social order, class conflicts and other underlying socioeconomic factors that may have influenced feelings of inclusion and exclusion. Rather, since there are practical limits to what can be achieved within a short discussion paper, I think it makes more sense to draw upon my strengths as a historical institutionalist to highlight the institutional constraints inhibiting or facilitating regional integration, and then leave it to others to deal with contextual factors.

The analysis concludes that despite much interest in regional governance and service delivery, there are still divided opinions on the pros and cons of regional integration. It is suggested that the province-centred structures we have relied upon to establish goals, principles, and make evaluations, have been organized in a way that promotes competition, reinforces elitism, and undermines evidence-based approaches to decision-making. It is recommended that there is a need to create new important institutional means for better informing public debate on the merits of regional cooperation and creating the kind of informed public opinion and political will necessary to make choices based on evidence, and not politically constructed popular myths

Introduction: Placing the Regional Integration in Context

The regional integration option has emerged repeatedly in political-policy debates in Newfoundland and Labrador. The following analysis will examine the regional question by exploring how the historical contestation over the regional idea in the past was influenced by adjacent provincial, governance structures and processes as well as external events and larger fundamental debates over new predictions or visions for Canada. The goal is to draw upon existing literature and practices to articulate the strengths and weaknesses of regional approaches, identify what has worked in the past, and make recommendations and suggestions about future strategies based on this historical evidence.

In the past, my research on the pros and cons of regional integration has provided much evidence that the failure to bring about structural and procedural changes in decision-making has limited what could be achieved on a regional basis (Tomblin 1991, 1995, 2000, 2002). Hence, there is little need to revisit all the pros and cons of regionalization discussed elsewhere. Nor is there a need to review all the grey and academic literature that support the same conclusion - political and bureaucratic elites at both levels of government have paid lip service to the regional cause and have, in practice, inhibited regional forms of cooperation (Savoie and Winter 1993). The fact that little has been achieved is clearly reflected in the fact that there have been so many attempts over the decades to kick-start the project or provide the kind of data that would be necessary to properly assess the advantages and disadvantages of regional cooperation. This refusal to experiment, engage the public and promote new forms of integration and interaction has helped to reinforce the status quo, but it has also made it difficult for those hoping to gain a better understanding of the merits of a less competitive, provincial approach to development. It also tells us a great deal about the factors that impede new approaches, despite pressures from below and above to bring about change.

It should be noted that some public choice theorists openly embrace the argument that provincial competition is good. They also generally oppose the assumptions of those who believe that Atlantic integration would produce new economies of scale and better public services. Indeed, the Atlantic Institute for Market Studies has argued for a more market-oriented and competitive approach to restructuring. Due to the fact that this public choice approach is more recent and has not had a significant impact on the political or academic debate over Atlantic cooperation, it will be left to others to discuss the merits of such an approach. Rather, our focus will be more on Newfoundland nationalism and community-centred approaches that offered different assumptions and critiques (House 1986; Sinclair 1988; Baldacchino and Greenwood 1998). Historically speaking, these frameworks played a more important role in confronting universal, economic-techno deterministic ways of thinking or approaching restructuring in Newfoundland and Labrador.

We will examine the historical and institutional context of the regional integration question, and why it has been so difficult to bring about fundamental changes based on the regional model. It should be recognized that while there will be an attempt to provide some comparative analysis, the primary objective is to inform a debate over the pros and cons of the regional option for Newfoundland and Labrador in the 21st century. Interprovincial forms of regional integration, for the purpose of this analysis, refer to the deliberate political strategy or process of pooling sovereignties across provincial boundaries and creating new regional forms of social interaction and political cooperation. This can be achieved either through by-passing established province-centred governance and mechanisms entirely and creating new regional ones (such as regional commissions or parliaments) or the alternative strategy of promoting regional cooperation and new forms of association - but relying upon existing government structures. Since the first model requires a regime change, it is not surprising that it has been more difficult to achieve. To date, the Atlantic-Maritime partnership has not gone very far in contesting or threatening embedded province-centred systems. Predictably, from an institutional perspective at least, this second model has made it difficult to radically reorient patterns of state-society relations or change the political game in a way that would transform the behaviour of competing provincial state elites.

Other forms of regional integration include *sub-provincial regionalization* which involves devolving power and authority to the community-level (example: provincial health authorities or economic development boards) and *transborder regionalism* which involves regional experiments among provinces and states (Brown and Fry 1993).

It does not help that regionalization, like federalism, is a slippery concept and has been associated with dissimilar movements, strategies, agendas and objectives over time. While regionalization and restructuring appear to go together, there are different ideas and interests involved. Consequently, as one would expect in any competitive, pluralist system, these interests naturally compete for power and influence. As domestic or external circumstances change, established regimes must adjust or be replaced. Seen in this way, regionalization upon closer examination can produce very different outcomes.

For example, regionalization cannot simply be thought of as a form of decentralization. In Newfoundland and Labrador, regionalization of health services has, in practice, been a centralizing force. Regional integration at the executive, interprovincial level would likely weaken, not strengthen local community autonomy. Second, it is also unclear that regionalization strengthens democracy. It could, but Premiers' meetings or regionalizing public bureaucracies would do little with respect to making the system more accountable. Third, it is an oversimplification to assume that regionalization is more innovation and results in substantial savings. In Canada, there has been much debate about the pros and cons of centralization and decentralization. Nor does the experience with regionalization and restructuring at the sub-provincial level provide evidence that health services costs go down as a result of these kinds of experiments. Given the growing attention paid to regional communities within the new global economy and community studies, however, understanding the dynamics of this approach to restructuring is of critical importance to the province.

Since the days of Joey Smallwood, there has been much discussion about the advantages and disadvantages of promoting new forms of integration or giving up provincial control over the development process based on integrated strategies, 'best practices' or new forms of knowledge that were constructed elsewhere. To be sure, these restructuring debates have been greatly influenced by external events and actors. On the other hand, the political-policy outcomes generated have also been affected by the power of embedded provincial ideas, processes and institutions that have tended to be ignored or underestimated by critics. Hence, understanding why the quest for regional reforms has never achieved very much, requires an approach that pays more attention to when policy regime changes occur and the kind of factors that either inhibit or facilitate fundamental changes. The paper draws upon the regime literature to deal with the historical interplay among competing ideas, institutions, and other forces that have influenced the rise of the regional option, but also made it difficult to effect radical policy-political changes on a regional basis. The intent is to rely upon concepts and theories in political science to inform a discussion of the key factors that shaped the struggle, and what would need to change to facilitate new forms of interprovincial integration and interaction, assuming, of course, this was considered to be a desirable objective.

How and When Regime Changes Occur?

Whether established ideas, processes, boundaries and institutions can survive or respond to new policy-political challenges depends on various factors. In this regard, the regime literature is an invaluable aid in discussing and identifying the various factors affecting regime changes, how and when they occur, if at all. For example, it has long been recognized that regime changes normally occur when there is a political and policy crisis big enough to challenge the status quo (Hall 1989, 1993; Bradford 1998). However, in the end, whether a regime change is achieved or not is ultimately to be determined by a variety of factors, including: the popularity of new ideas; the power, autonomy and capacity of old embedded ideas, processes, and institutions; as well as the opportunities and incentives available to reconstruct another vision, build consent, and mobilize the kind of coalition necessary to contest for power and institutionalize a new paradigm or system of knowledge creation. It should be noted that scholars hold different views on state-society relations or the determining impacts of economic, institutional and public expectations on political-policy outcomes.

For example, modernization and globalization theorists have tended to approach political-policy change as inevitable when economic circumstances change (Courchene 1997; Nova Scotia, New Brunswick and Prince Edward Island 1970). These diffusionist theories about the inevitability of change have been hotly contested by state-centred and other neo-institutional theories which suggest that political-policy outcomes are also greatly affected by the power, autonomy and capacity of old ideologies and identities associated with inherited state structures that have been underestimated, undervalued, or ignored in these more prescriptive approaches to change (Cairns 1988, 1995: Nordlinger 1981; Pierson 1994). These different conceptual frameworks provide a convenient way for approaching the history of struggle over the integration question in Newfoundland and Labrador.

Disagreements Over the Nature and Effectiveness of Regionalization

From the start, governments and citizens in Newfoundland and Labrador have been haunted and divided by different, but in many respects, similar debates over the integration question over time. During the earlier Canadian Confederation debates, and again in 1949, questions were raised about how integration and modernization would influence self-reliance, local traditions and future patterns of socio-economic development.

Complicating matters further, from the start, there was a clear attempt to roll the new province closer towards the Maritime orbit with the intent of making it easier to acquire the values of industrialization and become a full partner in the Canadian economic and political system. Much of this was based on the premise that old economic traditions, cultures and rural settlement patterns had to change based on the diffusionist models and "best practices" constructed and defended in critiques developed by modernization thinkers. The integration issue has resurfaced again and again and has been fought at different times and in dissimilar policy fields. Viewed this way, it is easy to see why selling the idea of integration whether in an era of nation-centred modernization, or globalization has proven to be a difficult challenge.

The regional integration struggle that first emerged in the province in the 1950s, and has gone through various battles since, provides an opportunity for us to better understand the forces of integration and disintegration in the province and the internal and external constraints which have inhibited structural changes in the past. With this in mind, the paper examines various questions related to the regional integration option:

- arguments for and against regionalization;
- inhibitors and facilitators of regional reform;
- effectiveness of existing regional intergovernmental processes-institutions; and
- the influence of the national context on the history of struggle over regional integration.

These issues are framed in a way that should make it easier to analyse and debate various options and approaches to integration in the future. These will be discussed in the conclusion.

Contest Over Regional Integration

Regional integration is a complex subject and there have always been conflicting views on the advantages and disadvantages associated with pooling sovereignty, merging provincial cultures, public-private institutions, and forging the kind of "best policy practices" and partnerships required to stimulate innovation and address cross-border challenges and opportunities. It is also important to note that the concept of Atlantic regional integration-cooperation has emerged repeatedly throughout history and been pushed onto the agenda by critics who assumed that restructuring issues were not being adequately conceptualized or addressed by the existing province-centred policy regime. These critics have tended to be academics but outside governments have, from time to time, also played an important role in the regional game. Clearly, because the intellectual champions of regionalism have never had the kind of independent, institutional base or structure that would make it possible to contest for power, or create new forms of knowledge, they have always depended upon others to push their cause, provide the data required for analysis, or disseminate information. Subsequently, their influence has come and gone in waves, depending on the political-policy context, interest and support of other policy actors and institutions.

Viewed historically, the regional idea can be linked to quite dissimilar eras of ideological debate and social reconstruction. As a result, the movement has been associated with very different assumptions and critiques that seem to have had little in common except for the fact that when circumstances changed there was increased pressure to reconstruct reality based on new values and not inherited province-based governance and decision-making systems. Consequently, we need to recognize that conceptual frameworks and political circumstances have changed over time, and so has the provincial government's view of the Newfoundland-Maritime partnership. It is also important to recognize that regional integration as a concept has been applied in different policy-political contexts and can be thought of as a continuum that includes administrative, economic, and political union (Tomblin 1995: 4). Each of these ideas have been debated over time.

Observed this way, it is convenient to think of the idea of strengthening transborder regional cooperative regimes as being in competition with embedded provincial ideas, processes and institutions that have traditionally been relied upon to conceptualize problems and then construct priorities and solutions based on these definitions. As illustrated by Bradford (1998: 9-12), there are different views on state and societal autonomy and whether political and policy changes are inevitable when economic and social conditions change. Nor is there a consensus on the underlying causes of development and underdevelopment. Consequently, regional integration has remained controversial. Cross-border regional interaction and partnerships have lacked the kind of institutional organization, political support and incentive that would be necessary to achieve a regime change. At the same time, due to the importance of regional clustering in the new global economy literature (Porter 1990, 1991), and the increasing popularity of neo-liberal globalization critiques in the country and elsewhere (McBride 2001), regional integration remains a salient issue that cannot and should not be ignored or underestimated in Newfoundland and Labrador.

By conceptualizing the regional debate this way, we are in a better position to debate the merits of restructuring and best practices associated with regionalization. Rethinking lines and approaches, or restructuring usually occurs only during times of stress. Whether change occurs or not and the direction and pace of change is thought to be influenced by various factors, including: the capacity of the old regime to survive and meet new challenges; as well as the level of support that can be marshalled to defend the existing system, or, conversely, create a new one.

Restructuring, as one would expect, is not a smooth process. It involves stress because the policy regime is at stake and the outcome might include changes in values, structure, organization, power differentials and even identities which cannot be reinvented once they are replaced. These historical contests over Atlantic regionalism provide us with important critical insights on Newfoundlands's place within the larger federation, as well as the political-policy constraints (inherited historical constructions) that have either inhibited or promoted certain forms of interaction and integration.

Modernization and the Quest for a New Approach

Since the 1960s, one of the great mysteries debated by political scientists was the survival of provincialism in an era of industrialization and modernization (Cairns 1988: 144; Gibbins 1982). Modernization theorists around the world had predicted that federalism was becoming obsolete and outdated. In Canada, the theory did not seem to work in practice and this stimulated much academic and political debate.

During this era, Canadian scholars on both the left and right, were highly critical of embedded provincial structures and practices, albeit for different reasons. Left-leaning critiques raised various concerns about how provincial structures and processes undermined opportunities to raise and mobilize class consciousness and political support for more progressive policies and political practices (Porter 1965). More recently, Bickerton raised similar concerns, from a political economy perspective, about how adjacent provincial structures and processes have inhibited opportunities for mobilizing the kind of broad regional coalition of business, labour and other interests that would make it much easier to meet new challenges and become more innovative, but in a way that would better serve the public interest and not just those of political elites (Bickerton 2001). Economists in their market-centred critiques have raised other concerns about the economic inefficiencies associated with smaller provinces and the extent to which provincial boundaries and federal regional policies since 1973 (when there was a shift away from Ottawa-dominated to province-centred General Development Agreements) have worked against economic integration-cooperation in both Atlantic Canada and the Maritimes (Lithwick 1982; Winter 1993; Courchene and McDougall 1991). They argue that underdevelopment has been a product of embedded provincial state boundaries and policies that have constrained market integration, innovation and adjustment. Feehan has contested the idea that there are, in fact, substantive economic benefits to be gained by Atlantic integration (Feehan 1993).

These debates over province-building sparked much interest and debate over state capacity and autonomy but there was never a consensus on the origins of or consequences of province-building. Consequently, different conceptual frameworks emerged to explain and debate the persistence of decentralization in an era of modernization-centralization. The issue of whether external socio-economic forces do or should determine political-policy outcomes was hotly contested. More economic-centred, modernization thinkers in the critiques they presented argued that boundary changes were inevitable, that unity and central planning was the way of the future for a modern economy - not disunity. It was proposed that it was a time to reconsider territorial boundaries based on new economic realities that made political and policy change inevitable. These market-based diffusionist assumptions were contested in critiques by institutionalists who suggested that state capacity and autonomy still mattered and should not be underestimated. State-centred arguments reversed the causal arrows and argued that the society can also be viewed as a product of state power and political construction or reconstruction. The cultural perspective presented the view that cultural traditions also needed to be considered in any restructuring exercise and economic logic does not always determine priorities and future directions (Bradford 1998: 11).

Others, who were informed by the dependency framework, further contested these market-centred assumptions that the best way to reverse the problem of underdevelopment was to simply give up local control over the development process and adopt the 'best practices' constructed and disseminated by other competing modern-industrial societies (Alexander 1983; House 1986; Sinclair 1988; McDonald 1987; Summers 1994; Newell and Ommer 1999; and Cadigan 1995). Because these dominant ideas promoted by modernization thinkers were reflections of the experiences and territorial-ideological power struggles and constructions elsewhere, it was suggested that these posed problems for societies that had their own systems of knowledge creation and contestation to rely upon.

As one would expect, the strength of these inherited domestic structures and processes determined, to a certain extent, reform agendas and responses. In New England, for example, in the 1930s and 1940s, there was much pressure from the centre and other regions to adopt a more regional approach to flood control and industrialization. It was suggested that existing boundaries were inappropriate and incompatible for dealing with the new challenges and opportunities associated with a new era. Yet, understandably, it was never easy for the governors in Maine or Vermont to embrace an eco-regional approach that would have likely created more benefits for Boston and other cities in the south, while flooding tracts of land in the north. From where they sat, there was little political incentive to support these kinds of changes. Consequently, the approach took decades to institutionalize (Gere 1968).

Since I have already examined the history of struggle over the regional integration in some detail, we will use this as a reference point in responding to the Commission's questions (Tomblin 1995; 2000; 2002). The purpose here is to simply summarize and overview these earlier findings.

Premier Smallwood's initial response to the regional integration question indicated that he was open and flexible when it came to regional cooperation. The entry of Newfoundland into the Canadian orbit in 1949 created a number of political-policy challenges and it was decided that the Maritimes would be the model for the new province. Subsequently, there were efforts in the early 1950s for the premiers and business leaders to meet, discuss common problems, and when possible, develop common strategies, but on a voluntary basis (Tomblin 1995). The rise of the Atlantic Provinces Economic Council (APEC) in 1953 provided a way for economists to disseminate their market-centred critiques and pressure for change in a way that other scholars did not.

These activities did not amount to much, in part, because provincial institutions and orbits remained strong and regional ideas and structures were minimal at best. Nineteen fifty-seven was a pivotal year in the quest to bring about fundamental changes. First, equalization became a reality. Second, Ottawa was committed to the regional disparity problem. These policies were highly controversial in other parts of the country and while premiers in poor provinces welcomed the new commitment, there were also concerns about the direction of change that went hand and hand with this kind of external interference (Tomblin 1995: Chapter 3). Modernization theory, after all, forecast the demise of federalism and helped legitimize the destruction of competing systems of knowledge creation and policy learning, not to mention Ottawa's spending power.

Initially, the federal government seemed to adopt a very aggressive approach and suggested that the Atlantic premiers must work together and develop common strategies. Since the new commitment to redistribution was not popular in other provinces, there was much pressure on Ottawa to bring about rapid changes quickly. The arguments of modernization theorists that provincial boundaries and existing practices had themselves caused the problem of underdevelopment provided fodder in this battle over competing visions.

Given the fact that there was never a clear academic or political consensus on the issue of regional disparity, or whether the underlying causes were internal or the result of external control and exploitation (Brodie 1990), it was predictable that there were going to be problems mobilizing sufficient political support for a regime change in a divided, competitive, federal system. Quite simply, as a result of equalization, and the power of provincial institutions, there was little incentive for the premiers to sacrifice their existing territorial and jurisdictional interests based on the arguments constructed and imposed by outsiders - despite outside threats and arguments that these institutions were unsustainable and contributed to the problem of underdevelopment in the first place. Despite various development and administrative problems, coupled with outside pressure, Prince Edward Island and Newfoundland and Labrador had little incentive to give up provincial status and put themselves in the same situation as Cape Breton or northern New Brunswick.

Faced with these circumstances, and faced with other problems as a result of resettlement, Term 29, APEC's support for Maritime Central Airways as a regional carrier, among other factors, Smallwood's enthusiasm for cooperation had dissipated by the mid-1960s. Consequently, he quit the regional club in 1965 and opted for a bi-lateral approach to intergovernmental relations thereafter (Conrad 1993: 424).

Despite forecasts by modernization thinkers about the inevitability of change, the Newfoundland Premier proved that provincialism remained a viable option. The battle over regional integration that intensified in the Maritimes proved also that it was a mistake to underestimate the power and capacity of executive-dominated provincial structures and processes.

However, opinion was more divided in the Maritimes and consequently, it took longer for provincialists to win the battle over territorial integrity. Initially, New Brunswick supported the idea of regional integration. Due to the restructuring that had already occurred as a result of the Byrne Commission report (which introduced the idea of Atlantica) and the Equal Opportunity Program, Ottawa had a strong ally in the quest to create new forms of knowledge and effort to erect a coalition around a new regional vision. The vehicle chosen to bring this about was the Maritime Union study that included a number of the same people that had previously been involved in the process of restructuring in New Brunswick. Another important factor, at the time, was the increasing threat posed by Quebec independence and pressure to deal with the problems this would create for the Atlantic region. Regionalization was one option considered.

The Maritime union report argued that the problem of underdevelopment was closely associated with provincialism. Hence, it was recommended that regime change was required. The authors of the report were greatly influenced by the European integration experiment and growth pole theory that was gaining prominence throughout the world. As a result, they recommended that three new structures were required: a commission; a regional parliament; and premier's council. Since Ottawa had also structured the Department of Regional Economic Expansion based on the urban-based ideas of growth pole theory, the regional movement appeared to be gaining momentum.

With evidence that Maritime public opinion supported a regional approach (Tomblin 1995: 93), the federal government, the media, other provinces, and various critics reacted by putting much pressure on the Maritime premiers to sacrifice their territorial and jurisdictional interests or powers. Even though the Premier of New Brunswick originally supported the idea of establishing a commission, Nova Scotia and Prince Edward Island never did. Despite this brief, impressive mobilization of opposition forces, they were still no match for the premiers in the long run. Regionalism lacked sufficient institutional support and even though the provinces were experiencing problems, and even with the problems posed by increasing Quebec and Western alienation, there was still not the kind of political-policy crisis that would have been necessary to force radical ideological-territorial changes in the federal system. In spite of the normative prescriptions promoted in various critiques constructed by experts and disseminated by external territorial-ideological competitors, the premiers acted to ensure that the status quo remained an option. That might also explain why there have been so few public opinion surveys carried out on the regional integration option since the Maritime Union study.

Consequently, the premiers decided that since there were benefits to meeting and promoting integration through various cooperative activities, the best approach would be to establish a premiers council only, supported by a secretariat. This way, the status quo would be preserved and nothing would change unless they all agreed. Predictably, the Council of Maritime Premiers was designed to defend and promote established territorial and jurisdictional boundaries and it remained the premiers' show. The practice of meeting behind closed doors ensured that the premiers remained in charge and there were limited opportunities for regionalists who lacked the kind of political resources, and information that would have been necessary to construct a new vision, mobilize support behind it, threaten adjacent provincial structures or processes and then replace these.

As a result, in areas that were less controversial or highly technical, there were opportunities to establish joint agencies and work together. These included such agencies as the Maritime Provinces Higher Education Commission (for Post-Secondary Education); Atlantic Provinces Education Foundation (to coordinate planning and develop curriculum); the Maritime Provinces Harness Racing Commission; Land Registration Information Service; and the Maritime Municipal Training and Development Board. But even here, there were various political and administrative constraints that impeded efforts at coordination (see Tomblin 1991, 1995, 2000, 2002). As predicted by the Maritime Union report, the premiers did find it more difficult reaching agreements where issues were politically sensitive such as sharing of lottery revenues, constitutional issues, port development, shrimp quotas, transportation policy (and as evidenced in conflicts over the offshore, nuclear power, pipelines, and the inability to establish a energy commission in the late 1970s) - energy policy. In these areas, there was more competition than cooperation.

By 1973, Ottawa's commitment to long-term planning and regional development had clearly declined as evidenced in the decision to launch a more province-friendly General Development Agreement (GDA) approach to regional development policy. Bloodied and wary from its near defeat in the early 1970s, the federal government no longer had the will or political capital to take on the provinces in the same aggressive manner. Regional disparity remained a mystery but the federal government faced strong provincial resistance and there was little political incentive to find solutions or carry on the regional fight. At the time, regional development policy had become an even lower priority. Consequently, the decision was made to change the system of finance based on a more province-centred GDA approach (Savoie 1986: 55). Thereafter, these actions reinforced provincial powers and the idea that the premiers should be most responsible for designing and implementing regional development policy. It was a pragmatic response, and also a sign of Ottawa's inconsistency, lack of interest and inability to control future patterns of development across provincial boundaries. Province-building (or the quest to build institutions for the purpose of controlling provincial development patterns and identities) even if it did inhibit the kind of economic integration and planning considered vital by nation-centred reformers, remained strong in an era of modernization. In Quebec, the drive for modernization during the 1960s did not bring about the kind of increased convergence that had been predicted and hoped for by modernization theorists and the supporters of this model (Simeon and Robinson 1990: 122). These patterns were replicated in other provinces, including Newfoundland and Labrador.

The defeat of Smallwood ushered in a new approach to the regional integration question in Newfoundland and Labrador. In fact, there was a clear attempt to resist the idea of Atlantic

Canada altogether. The new government came into power as a result of the mobilization of a new coalition of interests that opposed Smallwood's model of development. It was an era known for its aggressive style of province-building when much attention was placed on taking advantage of the momentum associated with new development ideas, a new style of leadership dedicated to solidifying links with rural communities, and constructing a modern bureaucracy more capable of defending against externally constructed industrial visions (House 1986).

At the same time, the new Conservative government recognized the value and logic of being part of the Eastern Premiers and New England Governors transborder experiment that began in 1973. Even though this organization has never achieved very much with respect to accelerating integration or interaction of cultures, institutions or policy traditions across boundaries (nor was it ever designed for such a purpose), the governors and premiers always recognized the benefits of meeting on a regular basis to coordinate strategies and compare best practices. Along the way, this multi-state regional confederation has had to struggle with its own structural problems associated with incompatible objectives, different cultures, sub-national institutions, and structures. And these have made it very difficult to go very far in solidifying new forms of cross-border regional integration within the Northeast international zone to any great extent (Tomblin 2000).

On the Maritime front, the regional integration experiment continued - but at a snail's pace and on the premiers' trajectory. By 1979, the jig was up, and Ottawa had decided that the inability or refusal of the Maritime premiers to promote effective regional integration strategies and mechanisms, despite federal support and encouragement, provided clear evidence that province-building continued to be the political-institutional reality and reference point for new reforms. Consequently, the decision was made to no longer provide financial assistance for the regional experiment. The provinces were on their own as the status quo continued.

In the late 1980s, the regional idea was again forced onto the public agenda. The Maritime premiers came to recognize that the regional experiment had lost momentum at a time when transborder regionalism was becoming a more popular prescription in Ottawa, Quebec, Ontario and the Far West. There was renewed pressure to abandon old approaches and adopt new ones. Faced with new challenges that came in the form of globalization, debt, service-based economy and another national unity crisis, the decision was made by the Maritime premiers to hire Charles McMillan, an expert in economic efficiency and also a friend of Prime Minister Mulroney to come up with a new regional vision. Comparable to the earlier Byrne report in New Brunswick, the vision constructed by McMillan included Newfoundland and Labrador. Yet, this vision was informed more by the assumptions of neo-liberal globalism than Keynesian-inspired industrialization.

The McMillan report did, however, adopt a much more pragmatic, province-friendly approach than had been the case with the previous 1970 Maritime union study. This may have been partly a product of the narrower focus mandated by the premiers or reflection of a time when centralization was no longer seen in the same positive light. It also likely reflected the lessons of the past - that radical changes were more difficult to achieve than incremental ones. While the McMillan study lacked the kind of detailed analysis associated with the more controversial 1970 report, it repeated many of the same themes: such as the need to reduce trade barriers; lower costs; promote policy learning; and pool sovereignties. Much of McMillan's analysis appeared to be based more on faith than analysis, but he never had the kind of resources that were made available to the authors of the 1970 report. As indicated by

James Feehan, the McMillan report did not provide much evidence to support its claim that Atlantic economic integration would necessarily produce economic benefits (Feehan 1991). Feehan provided evidence to support his argument that such assumptions may, in fact, have been misguided (Feehan 1993).

As in the past, there was a clear attempt on the part of McMillan to create the impression that given the political circumstances facing the premiers, they would have little choice but to recognize the benefits of regional communities in a new global economy - but when the nation-state, not federalism, was said to be in decline. These new realities, it was argued, required a new commitment to working together on the Atlantic Canadian partnership, but this time on a more incremental basis. Given such assumptions about the benefits and inevitability of political-policy change, McMillan appeared confident that the combination of domestic and external economic forces would eventually influence all four provinces the same way and push them in a common orbit.

In the 1990s, even though modernization theory was replaced by a globalization discourse, and growth pole theory had been replaced by Michael Porter's theories on the importance of regional clustering for a new economy (Porter 1990; 1991), some things had not changed. For example, the new neo-liberal global vision vying for power was also constructed externally and there was much outside political pressure to recognize and embrace a new regional model and approach to innovation and knowledge creation. For example, the 1993 Liberal Plan for Canada, clearly indicated that it was a strong supporter of the regional approach and planned on using this conceptual framework in addressing new economic challenges and for improving socio-economic conditions in the future (Tomblin 1995: 3). With the increasing popularity of transborder, continental approaches in Quebec, Ontario, Alberta, and British Columbia, coupled with the rise of new conceptual frameworks that supported integrated regional strategies and approaches, Newfoundland and Labrador faced new challenges. On the other hand, as in the past, bringing these kinds of changes to fruition proved to be difficult as long as the regime survived and spatial-political tensions over the needs of the old-rural and new-urban economies survived intact.

These were difficult times. The combination of problems with the fishery, forestry, and other natural resource sectors of the economy in Newfoundland and Labrador, coupled with problems with federal-provincial debts, out-migration, and the threats posed by Quebec independence helped create a sense of political-policy crisis in the province. The political landscape also changed with the rise of a new style of political leadership. Clyde Wells was a critic of Peckford's more decentralized, interstate, interventionist, old economy, dependency approach to viewing Newfoundland and Labrodors's place within the federation. His vision and priorities were influenced more by new economic theories as well as the need to strengthen national institutions in a way that would allow regionalism to be expressed at the centre (intrastate as opposed to interstate federalism). The new Premier believed that it was time for fundamental change based on new, more innovative ways of thinking. Consequently, he bought into the idea of Atlantic regional integration and interaction. Suddenly, as a result, Newfoundland and Labrador was back into the regional orbit.

Premier Wells was a reformer who was less supportive of embedded political and bureaucratic assumptions and was committed to rethinking provincialism and developing a new economic development strategy for the province. This involved preparing for the challenges of the new global economy and shifting power from the provincial state both downwards to the community level and upwards as well. In an effort to deal with the collapse of the old economy and fiscal imperative, the Liberal government reformed the education system, implemented a Strategic Economic Plan, promoted tourism, knowledge-based industries, and established 20 community-based economic zones. It is worth noting that it was a time when there was much interest in restructuring the public service and introducing new systems of service delivery and accountability based on the New Public Management (NPA) model.

Even though it was Margaret Thatcher who first pushed these ideas into the political arena, as indicated by Pal, while "the political roots of the NPM were initially in the conservative end of the political spectrum, over the last decade governments of every political stripe have accepted at least part of the message and have started to reform their internal structures and connections with social partners" (Pal 2001: 192). It was a philosophy that called for greater market efficiencies, less government but also more civic engagement and democracy. Not surprising, these competing objectives were often in contradiction and created various problems and "democratic deficit" challenges for political leaders hoping to build the kind of political support necessary to bring about a regime shift. According to Paul Pierson, a leading historical institutionalist and expert on path dependency, however, there were even limits to what Margaret Thatcher could achieve (Pierson 1994).

In the Maritimes as well, the 1990s were a period of uncertainty and restructuring. With the decline in federal transfers required to finance provincial institutions, coupled with major changes in the underlying political economy, and the collapse of many rural resource industries and communities, suddenly, the idea of accelerating new forms of regional integration and innovative partnerships at both the community and interprovincial level became more popular. With fewer political resources to sustain and mobilize provincial interests and issues, there was much pressure and discussion about the need to rethink old top-down, province-centred strategies. Moreover, in an effort to avoid political blame for declining public services, there emerged a pattern of devolving power and responsibility to the provinces and then to the community level.

In Newfoundland and Labrador, despite dwindling political resources, there was little evidence of the kind of political-policy changes that had been predicted by critics of the old provincial regime. As in the past, critics may have again underestimated the capacity of old ideas, processes, and institutions to survive, control forms of innovation and social learning, in spite of changing circumstances.

Regionalization as an idea remained popular but these reform experiments were constrained by adjacent structures. Within the province, for example, despite growing pressure to devolve power to the community-level and support from Premier Wells, the reforms actually achieved were rather limited in scope. Much of this may have been due to the fact that adjacent provincial structures and processes remained intact and there were insufficient institutional opportunities to contest their power. According to House, Wells, who was a critic of established processes and structures, made the mistake of not contesting these when there was a chance to do so and construct a different path (House 1999).

Ironically, these community forms of devolution also likely worked at cross-purposes with larger cross-provincial forms of integration and interaction. It seems logical that the more power is devolved at the community level and the more diversity that is created, the greater the challenge associated with implementing integration strategies across provincial boundaries. Coordinating services and strategies at the Atlantic level would be more, not less of a challenge, under such circumstances.

With respect to Atlantic restructuring and regionalization, initially there appeared to be much interest in bringing about new changes as a result of federal cutbacks and increasing popularity of the neo-liberal global model. This was reflected in various new regional initiatives, including a further reduction in interprovincial trade barriers, a new Maritime Development Fund, and an effort to find more innovative ways to coordinate trade promotion campaigns in places like New England. Despite these initiatives, however, very little had actually changed in policy practice or institutional form. Given concerns about the "democratic deficit," and general lack of accountability associated with insular, executive-dominated intergovernmental processes, there were but a few brief attempts to bring legislatures and cabinets closer to the regional tent (Tomblin 1995; Bickerton 2001). Even though there were areas where cooperation was achieved, the provinces continued to be competitive entities.

The 1990s were a period of much contestation and uncertainty. Consequently, there was a clear attempt to build a powerful coalition of interests around the new neo-liberal, global ideas of people like Michael Porter and Thomas Courchene. Porter had previously been hired by the Business Council of Canada and the Mulroney government to question the viability of the old natural resource based economy and what was described as counterproductive practices and structures associated with the old redistributive, natural resource-dependent Canadian regime (Porter 1991). Courchene, who was one of the most respected economists in the country, also played a significant role in pushing a new neo-liberal, techno-economic,"glocal" vision that competed for power and influence. He argued that change was inevitable due to domestic and international changes and that even Ontario had little choice but to become a region-state in a larger continental-global economy (Courchene and Telmer 1997). It is important to note that Courchene was closely associated with the Ontario and Alberta governments. Thus these ideas had a major impact on political-policy discussions over future east-west forms of association and redistribution in the country.

These were challenging times for Newfoundland and Labrador - but conditions were not as bad as had been predicted by neo-liberal global critics. Even though there was a crisis with respect to out-migration and the health of many rural communities, there were still sufficient political resources, incentive and justification to continue along the same political-policy path. This lack of political-policy crisis likely influenced political-policy responses and strategies thereafter. Despite the collapse of the cod fishery, new species created other opportunities. In fact, overall, the fisheries was generating more wealth than it ever had, it was only being distributed differently. With offshore development, the Voisey's Bay Nickel deposit and discussions over hydro development, the economic and hence political prospects for the status quo appeared to be improving. After 1995, even the national unity crisis appeared to have passed.

Another change came in the form of leadership style. With the decline of the sense of policy-political crisis, there were increased opportunities for adopting a more pragmatic political-policy approach to restructuring. Under these circumstances, Premier Tobin adopted a very different style of leadership. It was a strategy that blamed outsiders more than locals for the problems of underdevelopment. The new Premier was more of an insider, a defender of the status quo, and not a critic in the way that Wells had been. Operating in a period of greater optimism, there is clear evidence that the new Premier was less interested in change. Rather, whether at the sub-provincial, cross-provincial, or national level, Premier Tobin established a reputation of defending adjacent ideas (especially Pan-Canadian traditions of redistribution) processes and structures against external critics, other governments and companies like Inco. As evidenced in his support for Meech Lake, the new Premier supported the call to strengthen provincial government powers and institutions. At the community level, he made further decisions that likely weakened institutional support for a more regional model of community-focussed development that naturally threatened existing provincial structures or processes (House 1999). At the cross-provincial level also there was little evidence of interest in redefining governing policy paradigms or strengthening new regional forms of innovation. In fact, as evidenced in disagreements over offshore boundaries, lotteries and other territorial-jurisdictional issues, relations with the Maritimes were not very good. As a result, the tradition of meeting on a regular basis was not observed and the interprovincial experiment had, in practice, lost much momentum.

On a national front, Premier Tobin also established a reputation as defender of the old Canada against Courchene and other members of the neo-liberal global coalition, including Alberta Premier Ralph Klein and Premier Harris of Ontario. Tobin as both Premier and federal cabinet Minister went out of his way to challenge Courchene and other neo-liberal academics and politicians who had been critical of established practices, processes and boundaries. In fact, he deliberately went out of his way to inhibit the rise of these ideas onto the public agenda (Alberta Report 1996).

By the year 2000, there was a renewed effort to sustain Atlantic regional cooperation but still on a limited, province-centred, hierarchal, behind-the-scenes basis. There were few opportunities to link communities within the region to any great extent or provide the kind of information or data required to assess the value of the regional approach. Subsequently, the decision was made to reinvent the interprovincial experiment. In an attempt to get things back on track and grab attention, Charles McMillan was again hired by the premiers to produce a new vision for the 21st century.

In *Focussing the Future: The New Atlantic Revolution*, McMillan provided an overview and updated summary for the premiers on domestic and global challenges, as well as an analysis of why current approaches were not working, and a new policy agenda for the future (McMillan 2001). As in the past, much of the analysis was constructed based on the assumption that in light of new challenges associated with limited government, new techno-economic trends, and changing public expectations, there was no other logical choice but to renew and strengthen cross-border regional structures, processes, and reforms. The recommendations included the need to strengthen the role and capacity of the regional secretariat; a new Education and Learning Commission; new initiatives in commercialization of research, procurement and electronic service delivery and finally, an Atlantic Canada Health and Technology Commission to deal with health restructuring challenges, opportunities associated with e-medicine and other new forms of innovation. With the health care system in a state of crisis, it was suggested that it made more sense to pool resources, promote policy learning, and work more cooperatively in this policy field - instead of competing for scarce resources.

McMillan again argued that there were compelling reasons to integrate and interact in ways that would create new forms of innovation, integration and knowledge. But these were, as in the past, based more on faith than concrete evidence. The response of the premiers was predictable. Operating in a political-policy context shaped by different cultures, processes, party systems, institutional traditions, systems of knowledge creation and very dissimilar economic and historical trajectories - where executive power is concentrated, meetings are held behind closed doors and the public agendas and information are dominated by competitive territorial actors who compete for power and resources, it is little wonder that there was little political incentive to disrupt existing province-centred systems of governance or knowledge creation. Given these political-institutional realities, there were limited opportunities for informing public debate or mobilizing the kind of opposition required to bring about significant political-policy change.

Consequently, as in the past, the new regional-expert vision proved to be incompatible with existing governance structures and processes. Subsequently, the kind of reforms introduced were limited in their scope and reflected provincial biases. While there have been renewed efforts to better coordinate strategies in health, education, energy, e-commerce and other new forms of integration and interaction, these have been constrained by adjacent provincial ideas, processes, priorities and established systems of implementation. Despite McMillan's attempt to make a persuasive argument, there were clear limits on how far the premiers were willing to go in a regional direction. In fact, the strongest glue holding this partnership together was again the desire to defend existing boundaries against outside attack. The fact that the strategy of conservative defiance has always been a permanent built-in feature of the regional game has naturally reinforced the territorial imperative. So long as the political game remains intact and there is both incentive and resources available to resist outside ideological attacks on the territorial and jurisdictional powers and traditions of the provinces involved in this partnership, the nature of the game is unlikely to change very much.

Patterns of Convergence and Divergence: Overview

Understanding regional integration requires an approach that is historical, comparative and socio-economic, but yet does not ignore the important role played by political factors and institutions in determining outcomes. As illustrated in our case-study, there have always been competing views on the causal factors that determine patterns of integration and interaction and the related issue of whether economic and political integration is a good idea.

For some, political-institutional changes are seen as inevitable when environmental changes occur. Yet, the empirical evidence does not clearly support the broader arguments constructed in the past by economic-centred modernization critiques, or more recently, neo-liberal globalization arguments that political-policy change is both inevitable or required when economic conditions change. On the other hand, there is evidence to support the claims of scholars who believe that governance structures and decision processes still matter and that environmental changes by themselves do not always produce fundamental shifts in approach. That is, politics and institutions play a role in determining state-society patterns of integration and interaction. Hence, it would appear that the province has always had some choice in the kind of mental map or vision that came to be relied upon to define and address new challenges.

Finally, there has never been a clear consensus on how economic and political forces interact and produce wealth and the best way to replicate innovation in other societies. Consistently over time, the contestation over the integration question and best economic-policy practices have been greatly affected by urban-rural cleavages, the political game, how political resources have been distributed within the province, as well as the kind of coalitions that have been mobilized around these. Whether in the era of modernization or neo-liberal globalization, these kinds of divisions help to explain the cautious and even inconsistent approaches to the regional integration question and economic development adopted over time.

Consequently, a broad variety of contending approaches have emerged and historically constructed in different economic eras in Newfoundland and Labrador in order to deal with and respond to the regional integration question. These were constructed to explain divergent patterns of development and underdevelopment. Over time, there have been very different views on whether it was a good idea to resist or embrace modernization, and more recently, neo-liberal global practices. Such divisions about whether it makes sense to replace embedded provincial understandings about core economic and social relationships with new best regional practices provide critical insights on why it has been difficult to effect these kinds of fundamental changes.

Effectiveness of Existing Regional Structures and Mechanisms

The regional structures that have been built and relied upon to deal with cross-border issues between Newfoundland and the Maritimes have created various dilemmas, paradoxes and achievements, as well as failures. Some critics have never seen the value of balancing regional unity with provincial diversity in the Atlantic-Maritime region and consequently they have promoted visions that are uncongenial to the principle of federalism. Yet, the fact that provincial governments have always had ways for defending themselves has helped to reinforce much counter-resistence and the rise of intergovernmental structures and processes that were carefully designed to make sure that the territorial and jurisdictional interests of each province were never threatened. The confederal, regional partnerships that were constructed based on the principle of unanimity helped to preserve the status quo. The fact that the regional integration debate has emerged repeatedly in both the western and eastern periphery areas of the country and came to be interpreted as being imposed by outsiders has not helped the regional cause very much either (Tomblin 1995).

Even if there were benefits to integration, the premiers were always in a position to resist change. The fact that modernization and globalization practices were designed to deal with urban challenges and opportunities created political problems. Yet, because the premiers had much control over the public agenda as well as sources of information, it was always possible to limit the power of critics who lacked evidence and influence. The only time these ideas mattered at all was when outside governments decided to use them to legitimize their actions. As we have seen, these episodes were rather sporadic and reflected the fact that regionalism lacked institutional form within the federation.

The kinds of tensions between institutional context and regional integration are not unique to Canada. In the United States and Europe also it has not been easy challenging or replacing existing national or sub-national boundaries or institutions with new regional ones, in spite of the ideas put forward by regional reformers (Gibbins 1982; Daniels 1988; Derthick 1974; Gere 1968; Gress 1996; Hooge and Marks 1996; Jones and Keating 1995; Pierce 1976).

It is also worth noting that the effort to manage problems of interdependence through these kinds of intergovernmental structures has received much negative attention by critics over the years. These criticisms have focussed much attention on the extent to which these structures and processes are insular, non-democratic, non-transparent, non-accountable, executive-bureaucratic dominated, inhibit public participation, and have made it very difficult to enhance policy learning, adopt an evidenced-based approach, or mobilize the kind of coalition required to effect change across jurisdictions (Nova Scotia, New Brunswick and Prince Edward Island 1970; Simeon and Cameron 2002; Bickerton 2000).

In spite of these criticisms, there have likely been benefits to meeting to discuss common problems. Even if the regional confederacy was designed to control the level of integration achieved based on the territorial and jurisdictional needs of the governments involved, and hence could never go very far along the integration continuum, there have still been benefits to working together on common problems. Besides, since the regional integration project was as much a response to conditions within the federation as the result of a social movement, it became a convenient vehicle for responding to federal regional policy and improving the negotiating position of the Atlantic-Maritime provinces within the federation. Remarkably, this was achieved without sacrificing much provincial autonomy or capacity. As indicated by Bickerton, regional integration (as evidenced in the 1920s Maritime rights movement) could under the right circumstances result in the re-awakening and mobilization of broad support for a new model of social and political organization that extends across provinces. According to his analysis, whether this happens or not will depend very much on the strength of existing province-centred regimes. According to Bickerton, "the continuing importance enjoyed by vertically-integrated political and bureaucratic mechanisms as the main means of acquiring or leveraging an inflow of resources discouraged the formation of strong horizontal linkages at the local and regional level, as well as cooperative, solidaristic and community strategies of coping with and overcoming economic and social problems." (Bickerton 2001: 59).

Federal Government's Role as a Silent Partner in the Confederation

Even though there have been times when the national government, in alliance with other provinces, has pressured for new forms of regional integration in both Atlantic and Western Canada, other adjacent federal structures and practices, ironically, likely constrained and undermined these attempts at external policy interference (Tomblin 1995; 2000). Federalism by design makes it difficult to move in one direction. It is after all, a system based on both unity and diversity.

There is historical evidence that the federal government has, from time to time, embraced regionalization as a preferred option for Atlantic Canada, as well as Western Canada. Consequently, the centre has employed both the carrot and stick to pressure these kinds of behavioural and institutional changes. But Canada's peculiar competitive, yet at the same time generous system of federalism, likely made it difficult to subdue or subordinate smaller provincial empires or unilaterally impose a regional vision from above. As a result of equalization and other features of a generous system of fiscal federalism that reinforced a competitive, bi-lateral, province-centred approach to development issues, the national state was simply never in a position to unilaterally impose its preferences or force the premiers to accept these kinds of changes. By design, federalism makes it possible and even encourages sub-national communities to chose their own paths. They are, by design, political competitors, and the game that has been constructed makes it difficult to cooperate.

Federal administrative and political structures were never specially designed to impede or promote regional integration. For example, even though there is a regional component to the system of representation in the Senate, these appointed officials represent their provinces at the centre, not Atlantic Canada. The system of appointment for the Supreme court, it could be argued, somewhat follows a regional pattern, but here too, justices are not expected to play a role in defending or reflecting regional interests and identities at the expense of provincial ones.

As argued by Pross, bureaucratic structures are organized on functional, not strictly territorial lines (Pross 1993). Even the Department of Regional Economic Expansion (DREE) operated for the most part on a bi-lateral basis in the early 1970s, and the "decentralization of DREE involved a large scale transfer of decision-making authority to provincial offices, which had full responsibility for all stages of programs from research analysis to program formulation and implementation, and thence to evaluation and revision" (Savoie 1992: 57). There are various examples of shared regional systems of governance and accountability within federal organizations where specialized services, such as Corporate Management or Human Resources are housed in different Atlantic provinces. These decentralized planning structures are designed to improve service delivery, not infringe upon provincial authority. With the possible exception of the Atlantic Canada Opportunities Agencies (ACOA), there is little evidence of a clear federal strategy of promoting a regional conceptualization of the national state. Nor is there evidence of a federal plan to contest and replace provincial boundaries and regimes.

In fact, a major constraint that has likely worked against regional integration involves the internal competitive institutional divisions within the national government itself and the coalitions that are built around these. These functional coalitions or policy communities include provincial government decision-makers (Pross 1993). The national government is not a monolithic entity and has been structured in a way that makes it difficult to promote and coordinate common approaches to regional economic development. These structural problems have made it difficult, politically speaking, to go very far in addressing regional inequities. Our competitive federal system and centre-peripheral structured economy has helped reinforce different perceptions on the causes of underdevelopment and what should be done to address these. On both an ideological and territorial basis, the country is deeply divided on development issues and this helps to explain why regional development has not been a big priority in Ottawa.

Federal regional agencies or departments in Canada have simply never had the kind of power, incentive, structure, or resources that would be required to impose a regional approach to development. Rather, these entities have been forced to compete with other departments with other agendas and priorities. In the end, this has likely undermined the effort to challenge existing province-centred ideas, processes and structures. As discussed above, various government programs (General Development Agreements) have, in practice reinforced, and at times, even encouraged competition among provinces. These kinds of regional development initiatives, may have in practice hindered economic integration and innovation across provincial boundaries. They have also likely made it difficult to challenge the power of other coalitions and policies that either have or continue to add to the problem of underdevelopment in the country.

Despite this, as evidenced in the Liberals Red Book, and a long history of federal financial assistance to encourage and reinforce regional approaches, structures, policies, and even new forms of knowledge-creation, Ottawa has repeatedly gone out of its way to force the regional issue. At times, these pressures have been rather aggressive and come across as blaming the victim. As we have seen, however, the federal government and other supporters of the movement have never been in a position to directly challenge the autonomy, political resources, or territorial ambitions of the premiers. Nor has the public been well informed and involved in this debate over the pros and cons of regional integration. They have, for the most part, been spectators and there has been little opportunity to mobilize public opinion in a way that would change the political game or the nature of the discourse. Since the federal government has always lacked the capacity to impose a regional agenda, so long as the provinces continue to have sufficient political resources and little incentive to integrate, the status quo remains the most likely option. Since there have always been benefits to meeting and experimenting through regional institutions, there would be no reason to end the regional linkages. If at some point these conditions change, however, there will likely be more incentive to embrace the regional cooperative model and build a coalition around it. Indeed, cuts in federal transfers have, at times, been legitimized as a way to force the kind of tough medicine that would make the poor Atlantic provinces more self-reliant.

Summary: Where Should We Go From Here?

There is no unambiguous right choice when it comes to the integration question. Rather, priorities will be determined, in part, as they always have, by broad societal decisions, ideological and institutional foundations that are relied upon to make choices. On the other hand, these domestic choices will also be greatly influenced by external influences and shifting political resources, or lack thereof. In the end, power will play a central role in determining outcomes as it always does. As we have discussed, political science provides different ways of thinking about state power and external influences. The fact remains that rapidly changing domestic and international conditions may bring about Atlantic integration by stealth and it might not be the result of some grand planning exercise. Unfortunately, this possibility is often trumpeted by external competitors who come across as poor winners has likely done more harm than good.

As a result, unlike Europe where regional integration debates tend to be more positive and progressive, the regional debate in Canada has been structured in a way that makes progress and cooperation across boundaries very unlikely. On the other hand, the context in Europe is quite different and these differences need to be taken into account when comparing regional integration experiences.

Despite this, we have relied almost exclusively upon government structures and systems of dissemination that could very well be hindering the kind of collective efforts or adjustments that may eventually benefit everyone in the region. The problem is that we have never had an informed public debate on the benefits and costs associated with an approach that is less territorial and more cooperative, coordinated, and functional by nature. As we have seen, the institutional and political context may have contributed to this situation. When compared to Europe, academics and party leaders in Atlantic Canada have paid less attention to conceptualizing and discussing the potential role of regional communities within a global economy.

Despite much renewed interest in regional governance around the world, and a long history of Canadian attempts to strengthen the role of regions throughout the country, unfortunately, we have continued to rely upon approaches that make it very difficult to produce the kind of evidence required to properly assess the pros and cons of regional integration. Politically speaking, the game has been organized in a way that reinforces political competition and different orbits. As one would expect, there are still divided opinions on the advantages and disadvantages of different forms of integration and interaction, who the winners and losers will be, and what, if anything could be done to address these imbalances. Perhaps the biggest problem with the debate so far is the way it has been structured.

From the beginning, this debate has been organized in a way that diverts attention away from more evidence-based approaches. The regional game has always been designed to defend and promote the status quo. And because the sustainability and value of existing provincial jurisdictional and territorial boundaries have consistently been challenged by aggressive regional reformers with their own agendas, the response has tended to come in the form of defensive conservativism. That is, there has been a clear strategy of seizing control of the regional discourse and making sure that there are limited opportunities for constructing and then institutionalizing new ideas, coalitions and forms of innovation which posed a threat to the old regime. Even the few studies that have attempted to deal with new challenges and opportunities have tended to be crafted or framed to reflect pre-existing provincial biases rather than on the basis of knowledge constructed to reflect both scientific and community concerns and based on evidence. It is time this trend was reversed and there were increased opportunities for a more critical and open public debate. This will require an approach that no longer relies upon unproductive political divisions that inhibit the formation of new kinds of knowledge and partnerships that could prove useful for addressing new challenges and opportunities. As argued by Pal, with the rise of new policy instruments and increased pressure for more accountable and transparent systems of public decision-making, greater emphasis has been placed on constructing new, more evidenced-based forms of knowledge and challenging old monopolies and sources of power (Pal 2001).

The history of struggle over Atlantic integration illustrates the problems and divisions that have made it difficult to properly assess regional approaches and strategies. In the old resource-based economy this may have been a logical response, however, in a more service-based, global economy, especially if federal redistribution continues to decline based on the increased power of global neo-liberalism, the political-policy outcomes may, in time, come to be much more negative. Resource endowment and increased provincial control over these kinds of resources, while still a popular option in the province, may, in fact, prove to be less and less important over time, as evidenced in shifting demographics. To be sure, there is evidence that Clyde Wells' concerns about the lack of high-tech knowledge creation and innovation associated with old regional development policy practices were valid then and even more valid today (McGuire 1999; Atlantic Progress 1999).

Even though there are signs that Atlantic Canada is adjusting to new challenges and forces driving economic development, the region still has a long ways to go if it wants to catch up. It is open to question whether the current competitive province-centred systems of labour training, human resource management and post-secondary education are the best choices for success in a very different political game. For example, in the area of research and development, the Atlantic region is clearly falling behind the rest of the country (AAU 1999). Ottawa's new commitment to rewarding the best Canadian researchers and universities evidenced in programs like the Canada Foundation for Innovation, and Canada Research Chairs, rather than dealing with equity issues, has added further to the disparity problem (CAUT 2000). The question arises whether we could be doing better cooperating rather than competing and working at cross-purposes. In fact, there is much evidence that the federal government is aware of the problems that have been created and would support a more regional approach to research and development.

The intent of this discussion was to shed light on a complicated territorial-jurisdictional struggle, how it has changed over time, the processes and mechanisms that sustained the issue but also worked against effective integration. Regional integration is a complex issue and there are competing views on the likely outcomes that would be generated. In the end, the prospects for regionalization and the objectives to be served will be determined not only by the environmental context, but also by factors such as leadership, systems of knowledge creation, institutions and the kind of coalitions built to effect political change. Since there appear to be benefits associated with the provinces working together on an intergovernmental basis, this trend should continue.

However, effective policy development also requires better understanding of what we have built, the influence of existing structures, processes, public expectations on integration debates and inter-provincial forms of cooperation. Understandably, changing these reform processes will prove difficult unless or until there is a major political-policy crisis and the old regime collapses and is then replaced by new ideas, processes, and structures.

A better approach might be to find a more innovative way to partner and work together in developing new common regional strategies. This could be done in a way that might help build public support for new reforms and ensure the communities themselves are better informed and directly involved in the policy process.

We have created a situation where the defenders of the old regime are boxed in by adjacent structures, processes, and public expectations, and these may be constraining new forms of innovation and knowledge-creation. As uninformed spectators, the public has little incentive or opportunity to question old approaches or pressure for structural changes. At the same time, external ideological-territorial competitors have been pressuring for changes. These internal and external influences have worked at cross-purposes and this has likely made it even more difficult to introduce new reforms.

Perhaps the best way to break this cycle is to find new ways to conceptualize and evaluate regional strategies - but in a way that would be more evidenced-based. Throughout the country, there are various examples of experiments (Howlett 2000; Pal 2001) that seek to break down old lines and find more creative ways for bringing citizens into the policy process. In our province, the idea of establishing community accounts, new public access points, and data sets is innovative and a sign of the times. These kinds of initiatives make a great deal of sense and offer a solution for the regional integration challenge.

It would appear that there is a need for a more independent needs-based approach to the regional integration question. Given the dominance of and power of the old province-centred regimes, meeting new challenges and ensuring citizens are well informed will require new effective mechanisms capable of pushing new reform ideas onto the public agenda, analysing existing reform initiatives, identifying who the winners and losers are, and what can be done to improve overall performance.

From my perspective, what is required is a permanent independent regional commission designed to engage citizens in the province in a debate that is less divisive, less elitist, and more productive. There is a growing need to assess outcomes associated with both sub-provincial and cross-provincial experiments in regionalization. Unless or until we adopt such an approach, it will be difficult to mobilize the kind of support, knowledge and leadership that would be required to respond effectively to the challenges of regionalization and restructuring and make the right choices. It is also clear that there will never be a clear public understanding of what is happening, the objectives being sought through regionalization, who is pushing the idea onto the agenda and why. Nor will there be much opportunity to examine some of the positive outcomes associated with this choice of policy instrument. Besides, even if a consensus emerged that the regionalization model was inappropriate for the province, we would still need to construct the counter-arguments required to challenge the ideas that are likely to be imposed by external homogenizers in the future.

As we have seen, while regionalization was first viewed by many as a political construction of modernization theory and more recently neo-liberalism, such views have ignored more progressive models of regionalization and the potential for creating new forms of integration and interaction that could perhaps help develop better strategies for future community prosperity and health. Since it would be hard to deny that regionalization is a salient issue and hence matters, it is clear that it merits serious public consideration. It is time for Newfoundland and Labrador to challenge the monopoly of various academics and political elites over the regional discourse. This could be accomplished by the creation of a structure that would allow us to take ownership of the regional issue, or at least make it possible to challenge external forms of stereotyping that may, in practice, work against the rise of more positive forms of integration and interaction. What is required is an approach that takes power away from cultural imperialists but without at the same time destroying the possibility of regional cooperation.

To be effective, any new institution would need to have the kind of capacity and resources required to challenge old monopolies and mobilize the kind of coalitions that would make it possible to deal with new challenges and responsibilities over time. If a new commission linked decision-makers, researchers and communities in ways that would make it possible to focus more on common values, best practices and outcomes - and less on stereotypes - we would all be better served.

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Royal Commission on Renewing and Strengthening Our Place in Canada

The Conduct of Canadian Foreign Policy and the Interests of Newfoundland and Labrador

— Denis Stairs

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 151
The Making and Conduct of Canadian Foreign Policy 151
The 'Foreign Policy' Agendas of Newfoundland and Labrador - Themes, Properties and Problems 161
The Federal Performance – An Assessment 166
Canadian Foreign Policy and Newfoundland and Labrador: Strengthening the Hand 173
Summary of Suggestions 179

Endnotes 181

Introduction[1]

The general mandate of the Royal Commission is to consider ways of renewing and strengthening the place of Newfoundland and Labrador (NL) in the Canadian federation. Among other things, this entails the need to offer recommendations for maximizing the return to the province of such opportunities as membership in the federation affords. The purpose of what follows is to pursue this objective with special reference to the question of how the particular interests of Newfoundland and Labrador can be reflected, to the maximum possible degree, in the conduct of Canada's foreign policy.

With this task in view, and in accordance with the Commission's request, the analysis begins with a general account of the Canadian foreign policy process and how it is conducted. It then offers a thematic survey of the principal foreign policy issues that have been, and continue to be, of particular interest and concern to Newfoundland and Labrador, and provides an overall assessment of the degree to which these issues have been reasonably and fairly treated, given the broader features of Canada's position in the international community. Finally, it discusses the ways in which the interests of Newfoundland and Labrador might be better reflected in Canada's foreign policy in the future, and in the light of that discussion, attempts to draw some practical conclusions for the consideration of the Commission.

The Making and Conduct of Canadian Foreign Policy

This has become a complex subject. It used to be a simple one. There is a natural tendency to assume that it still is. To clarify the process, therefore, it may be helpful to place the current realities in their longer term historical context.

In the classical hey-day of the international state system – a European construct dating to the breakdown of the feudal era – foreign policy was concerned primarily with the so-called "high politics" of peace and war. Such politics were usually related to arguments over *who* should rule, and *where* they should rule. Later, in the age of imperialism, the quarrels of the European states over territory and domain were carried beyond the European theatre to other parts of the world. With the rise of industrialization, and with it the need for both raw materials and export markets, the stakes involved in these highly competitive international activities began increasingly to have an economic as well as political foundation. But imperial policy was a part of foreign policy, and it remained a tightly integrated enterprise.

In this general context, both the making and the conduct of foreign policy were relatively straightforward processes. The decisions were 'made' by the political leadership – typically by a monarch but later by more elaborately composed political executives – and they were carried out by the monarch's plenipotentiaries. Over time, in a process originating in the Napoleonic period, the latter came to be assisted by increasingly elaborate diplomatic staffs.[2] If the practical implementation of foreign policy decisions required military action, as it often did, professional soldiers and sailors – sometimes they were mercenaries – were recruited (or impressed) to do the job. In none of this was there any expectation that public approval was required (although, as time went on, efforts were commonly made to ensure that the citizenry at large was emotionally 'on side'). It was assumed by everyone concerned that international statecraft was a prerogative of the executive, that it was properly exercised at the level that we would now call the "summit", and that others were neither politically entitled nor cognitively equipped to have useful opinions on the issues involved. Foreign policy, in sum, was 'high politics' stuff, and high politics was the business of kings, queens, and aristocrats, with the help here and there of trusted confidantes drawn from other estates.

These understandings – convenient as they were to those who enjoyed the luxuries of rule – were exposed to transient spurts of stress in the 19th century, not least because of the intensifying interest of European politicians in the use of nationalism as an instrument of political mobilization. It was certainly possible for those in charge of foreign affairs to be elitists and populists at the same time, but this was a delicate balance that depended on a high degree of unquestioning popular acquiescence, and it was unlikely to be stable over the long run.

All the same, traditional practice did not come under serious challenge until World War I. The change that began then to surface had partly to do with the development of compulsory education at the elementary level, which led to mass literacy and to the arrival in the wake of it of mass communications (the popular – often the jingoistic – press). But it was driven more by the process that we now call "democratization" on the one hand, and by the indiscriminate horror of the first of the world's 'total' wars on the other. Given the slaughters in the trenches, it began to look as if the conduct of international affairs was too important to be left to political elites, or to the generals, admirals and diplomats by whom they were served. President Woodrow Wilson called in 1918 for "open covenants of peace, openly arrived at," and was lionized for doing so.

But the first run at the target that Wilson had set – at attempting, that is, to "open up" the foreign policy process – came to a bad end, and left the experimenters distrustful in principle of the enterprise itself. This was because it proved impossible for the bargainers at the Paris Peace Conference after World War I to make the concessions they knew their task required if they had to do the job in public view. As it turned out, every *demos* wanted its champions to win, and was inclined to repudiate them when they lost, or even when they accepted a compromise that would allow them to strike a deal. The most thoughtful of those who observed the wheelings and dealings in Paris and Versailles – Walter Lippmann of the United States,[3] for example, and Harold Nicolson of the United Kingdom[4] – left the scene with reservations. Perhaps foreign policy was not like other 'public policy' at all. Perhaps it was in a class by itself. Among other things, it could kill. It also involved the accommodation of complex political communities abroad whose interests, attitudes and dispositions were not well understood by untutored constituencies at home. That being so, there was a case, even in democratic societies, for arguing that the conduct of foreign affairs should be less subject than the other endeavours of government to the emotive whims and crudely fickle fashions to which domestic publics were so easily drawn. Perhaps, in short, the job ought to be left to the professionals after all.

This attitude, it has to be said, came to prevail also in the foreign service of Canada. The service's origins date to the period between the wars,[5] and its early recruits – Lester B. Pearson among them – carried in their memories the vivid scars of World War I, which had seemed to result in part from the populist rivalries that had flowed from incompatible nationalisms in vigorous flight. There was a sense in any case that foreign policy was concerned with the *national* interest, with 'interests of state,' and not with *partial*, or *particular* interests. Hence it was, or ought to be, non-partisan. After all, its primary purposes were to protect both the state and its citizens from potential sources of external military menace, and to advance the commercial interests of the national economy, taken as a whole.[6] These, presumably, were purposes that all the citizens shared.

It is true that in much of this period Prime Minister Mackenzie King liked to proclaim that, on matters of foreign policy, "Parliament will decide." But it rarely did, because it was rarely asked. In reality, King's purpose was not to be inclusive, but to lay grounds for shrugging his shoulders – to put himself in the position, that is, of being able to respond to politically-inconvenient importunities from abroad (usually from London) by asserting that the decision at issue was not his own to make.[7] In reality also, except for his last two years in office, he was his own Secretary of State for External Affairs. Foreign policy – war policy – had divided Canadians deeply in World War I. In an obviously dangerous international environment, it could easily do so again. No one else understood as well as he the need to keep it at bay. It therefore required his personal attention. It was special.

Elements of this general attitude continued to prevail for much of the period following World War II, not least because of the high stakes (and the elevated security requirements, the requirement for secrecy prominent among them) that were involved in the prosecution of the Cold War. Even as late as the 1960s, the then-Secretary of State for External Affairs, Paul Martin, was insisting in Cabinet that his portfolio was not a portfolio like the others, and that his colleagues should rest content with such briefings as he thought it appropriate to give them. Certainly they should not presume to debate the decisions that he and his ministry might make. His colleagues in External Affairs were "on the cables." His colleagues in the Cabinet were not. The Prime Minister, his own interest in foreign affairs notwithstanding, did not demur.[8]

This view of how the Cabinet ought to function in relation to foreign affairs (even in the security field) did not survive the arrival in the Prime Minister's Office of Pearson's successor, Pierre Elliott Trudeau.[9] But by then much more fundamental forces of systemic change were also in play. In the long run their practical impact on the way things had to be done would outweigh by far the effects on the decision-making process of the personal preferences and leadership styles of *any* Prime Minister, no matter how strongly willed.

The forces at issue here were rooted partly in the growth of government itself over the course of the 20th century, as democratized populations (taking advantage of the possibilities unleashed by a combination of economic growth on the one hand, and the development of the policy sciences on the other) began to demand an ever-expanding list of public services. Even more fundamentally, perhaps, they were grounded in the advance of communications and other technologies, a phenomenon that was beginning by the 1960s to create what Marshal McLuhan, with typical optimism, liked to describe as the "global village". Eventually, this process was to lead to that complex array of structures and transactions in finance, industry, commerce, culture, the environment and politics that we now hazily describe as "globalization." Governments that were trying to do more things were finding it increasingly difficult to do them in isolation.

This was not, of course, a sudden development. Its origins could be traced back to antiquity and to the very beginnings of inter-tribal trade. But it accelerated dramatically in the early phases of the modern era as a result of the industrial revolution, and it is now doing so once again – this time with even greater effect – as a by-product of the revolution in electronics.

In the present context, the significance of these various evolutions derives principally from two of their secondary consequences, the one closely related to the other. The first was that they greatly expanded the substantive agendas of international affairs, which came to include not merely the high politics of traditional statecraft, but a host of other, more prosaic matters – many of which were no less vital or urgent for being mundane. A technological science showed that a depleted ozone layer – itself the product of an exploited technology – could conceivably sicken and kill humanity the world over. Restoring it might require the elimination of certain of the gases used in pressure cans and refrigerators. Eliminating such gases in one country alone would not be enough. Members of the state system everywhere would need to respond. By such linkages of cause and effect, the regulation of the packages used to deliver hair spray and household cleansers became not only a proper, but a high priority, object of international diplomacy, and the attentions of statecraft were directed to the contents of cupboards in private homes all over the developed world.

The second consequence, concomitant with the first, was that 'foreign affairs' ceased to be a business that was confined to, or dominated by, foreign affairs departments. It became instead the business of almost everyone in government. This was particularly, but not uniquely, true in the highly integrated regions of Europe and North America. As early as 1970, when the Trudeau government completed its foreign policy review, it found it useful to conceptualize the conduct of Canada's foreign relations as an inter-related series of functions and activities bearing directly or indirectly on the work of almost every minister in the Cabinet.[10] Three decades later, when the Chretien government had to respond to the deep security anxieties aroused in the United States by the "9/11" attacks on Washington and New York, its task, although focussed on a 'security' concern, required the attentions of virtually every department and agency of the federal government, to say nothing of their provincial and municipal counterparts. In this enterprise, neither the Department of Foreign Affairs and International Trade nor the Department of National Defence was the natural 'lead' agency, and the Prime Minister thought it appropriate instead to create a special Cabinet committee to oversee and co-ordinate the government's response.

This discussion could be greatly elaborated, and there is no visible end to the number of examples that could be used to demonstrate both the complexity of the foreign policy community as a structure – it is a shifting thing, with neither a fixed composition nor clearly defined jurisdictional boundaries – and the way it works as a process. But perhaps enough has been said to provide a foundation for the following observations, which may have particular relevance for the ensuing discussion of issues more directly related to the work of the Commission:

1) At the bureaucratic level, Canada's 'foreign policies are no longer conducted solely, or even predominantly, by the Department of Foreign Affairs and International Trade. International affairs have been 'domesticated,' and in the process they have drawn the other ministries and agencies of government into the game. DFAIT has certain credentials, certain 'influence assets', that it can bring to the policy table. It has a representative diplomatic establishment abroad. It has extensive experience and expertise in the arts of international negotiation. In some areas – notably the ones associated with the traditional 'high politics' of international peace and security – it still plays a leading role on matters of substance. And the fact that international trade

> policy now lies largely (although not solely) within its purview gives it a central role in the increasingly important world of trade diplomacy. But in the end it shares its brief with a kaleidoscopic array of other government departments, many of which (in their respective fields of specialization) are the true custodians of the expertise upon which the construction of policy depends. Some of them have developed skills and capacities for international negotiation that more than rival those of the traditional diplomatic service.

This bureaucratic complexity – and the need that comes with it to disperse the foreign policy function – is now reflected even in the structure of the Department of Foreign Affairs itself, which has not one, but two ministers of its own, and a difficult but inescapably integrated relationship with a third.[11] Recently its position has been rendered even more uncertain by the assignment of responsibility for much of Canada's all-important relationship with the United States to John Manley, the Deputy Prime Minister and Minister of Finance. It would not be surprising if the current Minister of Foreign Affairs were in some puzzlement over the question of what there is left for him to do. Some of the Department's more reflective officials express concern that their role is now less about the making of foreign policy and more about providing support services to departments elsewhere in government. Wags among them have been known to observe that they have become the "Department of Left-Overs."

2) From the point of view of the professional foreign service, this general pattern of intrusions from the bureaucratic flank has been compounded by intrusions from above, and intrusions from below.

The intrusions from above are manifested mainly in the increasing involvement of the Prime Minister himself, along with his political and bureaucratic servants in the PMO and the Privy Council Office (PCO), in the conduct of summit diplomacy. This is partly a matter of Prime Ministerial preference, and the preference tends to intensify as incumbents become 'old hands'. But here, too, there are more fundamental forces at work. In the first place, the 'domestication' of foreign policy has given it a greater salience for the course of domestic politics, even in peacetime, and the course of domestic politics is always a matter of considerable interest to the leader of a governing party. In the second place, and partly for the same reason, everyone else is doing it, too. During the Cold War, summit meetings were relatively rare occasions, and they occurred as often as not to achieve a symbolic effect or to lend public visibility to agreements already reached. The conventional wisdom was that serious negotiation at the summit (except, perhaps, among closely and routinely co-operating friends) was a hazardous exercise. Mistakes could be made. Backs could be put against the wall. And for obvious reasons, cornered summiteers had considerable difficulty in claiming the need to seek further instruction from their superiors as a means of escaping the more telling importunities of their adversaries.[12] In the current period, however, summit encounters are proliferating like rabbits, and the proliferation is becoming increasingly routinized – in the G-8, in the Commonwealth, through agreements with the European Union, under the auspices of APEC, by custom with the United States, and in the context of a seemingly endless array of trade initiatives (like the one entailed in the notion of a Free Trade Area of the Americas). To these are added the ones we like to launch ourselves – most notably in the current context the 'Team Canada' trade-promotion initiatives led by Prime Minister Chretien.

It goes without saying that, in all these enterprises, DFAIT plays an important role, and the summits themselves create agenda-advancing opportunities that the Department's more skilful officials can exploit. Nonetheless, the Prime Minister is not a minister whom the Department can call its own, and his offices – political and bureaucratic alike – represent rival centres of power that seem to be of ever-increasing significance. They complicate DFAIT's life. And they force it to share.

The intrusions from below are more multitudinous, and they reflect the intensifying demands of an ever-increasing array of domestic constituencies for more direct and immediate involvement in the processes by which public policy decisions, including foreign policy decisions, are made. There is nothing new, of course, in the clamouring of interest groups for the attentions of government. Lobbying for causes presumed to be in the public good, as well as lobbying for private and sectoral interests, are long-standing phenomena, and some would argue that they are an essential feature of the liberal democratic process in a pluralist society. But for various reasons that need not be considered here, the insistence on participatory access has become far more vigorous in recent years, and the same factors that have led to the domestication of foreign policy in other respects have helped to domesticate it here, as well. The influence of many of the lobbies involved has been increased, moreover, by their now-very-sophisticated capacity to orchestrate their remonstrations, at little financial cost, in tandem with their counterparts abroad. Transnational public service interest groups now rival multinational corporations in the constituency politics of international affairs, and they have persuaded their governments – certainly they have persuaded the government in Ottawa – that they have the right to be taken actively, explicitly and visibly into account in the decision-making process. They argue for their entitlements on grounds that they link to the principles of democratic practice.[13] In the real world, their case is often strengthened by the fact that they have information or expertise that the bureaucracy may lack, and sometimes also by their capacity to facilitate the delivery of the government programmes that they have successfully supported.. But for whatever reason, "consultations with Canadians" are now *de rigeur* in Ottawa as precursors to policy development, and the practice has intruded as much on the operations of the Department of Foreign Affairs and International Trade as on those of any other ministry.

How much impact this has really had on the substance of policy decisions is difficult to discern. Certainly it has had *some* impact, although the effects vary greatly with the issue at stake and the predilections of the ministers involved. That it has complicated the environment within which DFAIT has to function, however, cannot be doubted at all. One of the consequences has been the allocation of very substantial personnel and other resources to the consultative task. Another has been the inclusion of increasingly elaborate and eclectic arrays of semi-official advisers to the negotiation teams that are dispatched abroad to represent the interests of Canada in multilateral negotiating fora. For good or ill, we have come a long way since the Paris Peace Conference of 1919.

3) In the particular circumstances of the Canadian case, all these phenomena have been greatly intensified in addition by the pervasiveness of our relationship with the United States, and by the continuing process of continental integration. One of the realities of our time is that "globalization" is not yet "global" at all, but regional, and with the possible exception of the European Union, it can be argued that the North American region

represents more than any other part of the world what a truly globalized environment might actually look like. Certainly the transnational (and transgovernmental) linkages between Canada and the United States are massive on almost every dimension, and the interactions, at multiple levels, between the various components of the governmental apparatuses on the two sides of the border are both continuous and to a surprising degree informal. Once again, almost everyone is involved, and one of the frustrations in DFAIT is that its own officers in both the Pearson Building and the Embassy in Washington are sometimes the "last to know." When they find out, their preoccupation with other issues and considerations frequently leads them to put brakes on what other ministries are trying to do – a pattern that can cause them the next time round to receive even less notice than before of what their counterparts in other bureaucracies are cooking up. In foreign affairs, as in so much else, it is hard to foil a *fait accompli* – and other departments know it.

4) One of the by-products of the dispersal of the foreign policy function throughout the bureaucratic apparatus, with particular bureaucracies having in many cases their own constituencies to serve, has been the growth of a phenomenon that students of foreign policy decision-making have come to call "bureaucratic politics."[14] Since so many different bureaucratic players are involved in the processing of policy problems, often a final conclusion can be reached only through a series of incremental steps that are taken in successions of inter-departmental meetings. In these encounters, the representatives of the contending departments naturally seek to maximize their ability to pursue their own mandates and fulfil their own responsibilities. Since in most situations not all missions can be pursued with equal effect, and since occasionally they will be incompatible, trade-offs have to be made. This requires compromise, and the final result may thus seem imperfect from the particular vantage points of almost all of the players in the game. In such circumstances, what really recommends the 'bottom line' is simply the fact that all of the actors involved are prepared, or can be compelled, to live with its consequences. Perhaps no one is wholly satisfied, but most (if they do not lose the contest entirely) are at least *satisficed.*[15] In these vaguely Byzantine contests, some (like the Department of Finance) routinely win more often than the others for the obvious reason that they are more powerful than the others. But everyone wins something some of the time. If they did not, the unbroken repetition of their failure would testify to their being redundant.

In this context, it should be noted that the players with the biggest advantage are usually the central agencies – the Privy Council Office, the Department of Finance, or the Treasury Board. This is because they have at their disposal the most important of the assets of bureaucratic power. In these particular examples, they control, respectively, access to the agenda of the Cabinet (and hence the power to set priorities), the power of the budget, and the spending power. Interestingly, there was an experiment during the Trudeau years at the behest of Allan Gotlieb, then the Under Secretary of State for External Affairs, to have the External Affairs Department added to the central agencies list. The initiative was founded on the view that there was need of a mechanism for co-ordinating and prioritizing the conduct of all of Canada's external relations, and most importantly, its relations with the United States. The Prime Minister liked the rationality of the rationale, and accepted the argument. But in the end it had little effect, because the only power available to External Affairs in attempting to make the designation stick was the power of sweet reason – hardly enough in itself to encourage other departments, with mandates and obligations of their own, to subordinate themselves to a foreign service bent on controlling what would be done when, and by whom. Why, for example, would Environment Canada want to get hung up by External Affairs on a transborder environmental issue if it thought it could make progress more quickly and efficiently by working directly, and on its own, with its like-minded counterpart (the Environmental Protection Agency) in Washington?

5) In none of the foregoing, it will be observed, has any mention been made of the involvement in these matters of the governments of the provinces. But that is only because it is difficult to talk about everything at once. In practice, the same forces that have 'domesticated' foreign policy in a way that has stimulated the involvement of other departments of the federal government (along with an impressive assemblage of constituency interests of various types and political disposition) have also served to bring the provinces into the foreign policy game. This phenomenon was not anticipated by the Fathers of Confederation, whose conception of foreign policy was the classical one, and whose expectation was that it would continue to be the business primarily of Whitehall, and not of the Dominion. The original British North America Act of 1867 was a 'home rule' statute, and there was no thought that it would lead to an independent Canadian voice in world affairs. The only reference to such matters was in Section 132, which concerned the implementation of such Canadian obligations as might arise from treaties concluded between the Empire on the one hand, and foreign countries on the other – a responsibility that was assigned to the federal, rather than the provincial, authorities. Given the substance of international diplomacy in the 1860s, this was not assumed to be problematic from the point of view of the distribution of powers as between the federal and provincial levels of government, because the responsibilities of the provinces were not expected to have international dimensions.

As it turned out, of course, this premise proved to be ill-founded, precisely because of the processes of change described above. It should be noted that it was only gradually, and with the help of a long series of incremental precedents, that even the federal government acquired the capacity to intervene directly in international matters affecting Canadian interests.[16] This tale need not be re-told here, but over time the effect was to produce a situation in which the roles to be played respectively by the federal and provincial governments in foreign affairs, particularly in relation to the conclusion and implementation of formal international agreements, became a matter of substantive constitutional concern. What would happen if the purpose of such an agreement was to affect the conduct of public policy in relation to issues falling within provincial jurisdiction?

It should come as no surprise that two of the most important cases to come before the Judicial Committee of the Privy Council on this issue derived from the fact that new technologies were creating novel requirements for international regulation. The first had to do with aerial navigation (the so-called "Aeronautics Case" of 1932) and the second with communications by means of radio (the "Radio Case" of the same year).[17] A third such case – and the one that still underlies Canadian constitutional doctrine in this area – resulted from the need to fulfil certain obligations arising from Canada's participation in the International

Labour Organization (the "Labour Conventions Case" of 1937).[18] In retrospect, the ILO can be recognized as an early prototype for the plethora of "specialized agencies" that were to emerge with the creation of the United Nations after World War II. These were intended as vehicles for dealing with a growing list of what we now describe as "transnational" problems, many of them bearing very directly on the responsibilities of provincial governments.[19]

In plain English, the implication of the Labour Conventions Case was, and is, quite simple. The power to conclude treaties lies with the federal government. Federal authorities, however, cannot use this power to invade provincial jurisdiction, and hence they cannot compel the provinces, against their will, to implement the provisions of international agreements that happen to bear on provincial responsibilities. The practical implication is that Ottawa is well advised to have the provinces 'on side' *before* it accedes to international responsibilities that, in whole or in part, the provincial governments will have to meet.

In this context, the question of whether the provinces have been adequately and reasonably consulted by federal authorities when provincial obligations (to say nothing of provincial *interests*) have been at stake in international negotiations is the subject of considerable argument and debate. There is a natural tendency among foreign service officials in Ottawa – 'cross-pressured' both internationally and domestically[20] – to assume that in recent decades they have been bending over backwards to be solicitous of provincial concerns, even to the point of frequently including the representatives of provincial governments on their delegations to international conferences. In some areas – trade, for example – such consultations are very useful, even essential, to the federal authorities, since they help the latter to define their negotiating objectives, to ensure that the provinces are fully aware of the practical implications of the various proposals under negotiation, and so on.[21] In practice, however, their counterparts in provincial capitals frequently feel that they have been given insufficient advance notice of pending international negotiations affecting their interests, that the background information they have received has often (although certainly not always) been 'too little, too late,' that the consultations to which they have been invited have been more perfunctory than substantive, and that they have repeatedly been confronted with *faits accomplis* that have left them with little room – absence a willingness to create a major crisis – within which to pursue their own preferences.[22] For some of the smaller provinces, in particular, these problems may be compounded by the fact that the expertise available to them within their own departments of government is sometimes very limited, so that they find it difficult to keep continuous track of what is going on, or to come up to speed on short notice.

It is difficult for a resident of the peanut gallery to assess the relative merits of the competing perspectives on these issues. The positions of the two sides are both understandable and predictable – not to say inevitable[23] – and it seems reasonable to suppose that God thinks that the justice lies with different parties in different cases. In general, however, it is probably safe to assume that touching base with the provinces is an enterprise that can cause considerable inconvenience (not to say expenditure of time and energy resources) at the federal level, and hence distracted federal officials are unlikely to welcome it unless they have a clear need for substantive advice. The ease of Internet communications makes the task a little easier, but on the whole there is no escaping the underlying implication, which is that the provinces are well-advised to keep the pressure up.

It should be understood that the 'political' case, or the case in 'reason' (as opposed to the case implied by judicial interpretations of what constitutes appropriate constitutional practice), for close consultations between the federal and provincial authorities in foreign affairs is not confined simply to issues that fall within the purview of provincial jurisdiction, or for which (more commonly) responsibility is shared. It extends also to situations in which the matters at stake, although constitutionally the objects of 'last-say' decision-making at the federal level alone, nonetheless have greater implications for the citizens of some provinces than for those of others. In other words, as a matter of political practice (and hence also of constituency expectation), the provinces are not merely the custodians of governmental responsibility in their own constitutionally assigned spheres of activity, but are also the champions of the interests of their respective populations in the politicized process that generates 'national' policy at the federal level. In effect, the provinces 'govern' in their own areas of jurisdiction, but they also act as legitimate 'lobbyists' in the areas of federal jurisdiction that are of particular interest to them. In so doing, they help to sensitize federal decision-makers to the particular needs and preferences of citizens living in the various localities that make up the country as a whole. This sensitizing task is also performed by the federal-provincial distribution of powers itself, by Members of Parliament, by the formal provisions that determine the composition of the Senate, by the unwritten conventions governing the composition of the Cabinet, by the representations of private sector and public service interest groups, by the media, and so on. But the lobbying of the provinces is an important part of the process as a whole. The provinces 'rule' in their own spheres. They 'play politics' in the federal sphere. And their political responsibility for doing so gives them a legitimate 'need to know.'

6) Finally in our discussion of the policy-making process in foreign affairs, it may be useful to take explicit note of the fact that everything that is done in foreign policy – certainly everything that is *accomplished* in foreign policy – is dependent also on circumstances abroad, and on the character of the opportunities and constraints to which these circumstances give rise. International politics is just that – 'politics' – and in pursuing it, the champions of Canada encounter the champions of other states. Interests often conflict, and capabilities vary. In some cases, Canada's political and other assets may be very substantial, and importantly augmented by those of like-minded friends abroad. In others, the capacity of Canadian negotiators to get what Canadians want is extremely limited. Assessing the prospects for success is thus one of the more important of the many calculations that influence the decision-making process, and the assessment can be complicated by the need to keep diplomatic channels in good repair over the long haul, to recognize that not all issues are of equal importance and hence that priorities have to be set, to determine whether the 'timing' is right given the pertinent domestic circumstances confronting policy-makers in the other states involved, to decide which forum might be the most advantageous environment within which to pursue the Canadian objective, and so on. It is, in fact, the intrusion of these other considerations – central as they are to the practical conduct of diplomacy – that is most frequently responsible for DFAIT's apparent thwarting from time to time of the preferences of other actors in government. The 'big picture' gets in the way of the 'little picture.' The inevitable result is a quarrel over what should be thought of as 'big' and what should be treated as 'little.' And in contests of that sort, a now-famous aphorism beloved by students of bureaucratic politics clearly applies: "Where you stand depends on where you sit."[24]

It follows from the foregoing that the making and conduct of foreign policy, taken as a whole, is a highly complex and politicized process, involving the interplay of a large array of governmental actors at home and abroad.. These in turn are often supported by powerful and vociferous – if frequently divided – constituencies. Occasionally, the policies required for the resolution of a particular problem will be so clear – and so important – that senior decision-makers will cut quickly to the chase. In other instances, the matters at issue will be so trivial or routine that they can be dealt with more or less mechanically, and with a minimum of fuss, at the administrative level. In most situations, however, multiple interests will be at stake, and the politics of complexity will ensue. These are precisely the kinds of situations with which the authorities in Newfoundland and Labrador have been most concerned. It may be useful, therefore, to draw attention to their most central characteristics.

The 'Foreign Policy' Agendas of Newfoundland and Labrador - Themes, Properties and Problems

It should be noted at the outset that there is nothing particularly new about the province's current frustrations in relation to the federal conduct of Canadian foreign policy. While the particular issues in dispute have sometimes varied from one jurisdiction to another, other provinces have had similar experiences and difficulties.

In the case specifically of Newfoundland and Labrador, there is a long history in particular of concerns arising in the context of international negotiations bearing on both multilateral and bilateral agreements for the governance of international trade, on the conduct of Canada-U.S. defence relations (with particular reference to the fate of American military bases on NL territory), on the further development of the international Law of the Sea in the middle 1970s (the creation of the 200-mile Exclusive Economic Zone being of particular importance), and on the dispute with France over the location of the maritime boundary with St. Pierre and Miquelon. Even in cases where there has been general agreement between the federal and provincial authorities on basic purposes and objectives (as in the case of the negotiation of the Canada-U.S. Free Trade Agreement), there has sometimes been a sense in St. John's (as elsewhere) that provincial acquiescence was being taken for granted, that provincial authorities were being left too much outside the loop. It was not uncommon in the early decades of the post-war period for provincial public servants and their political superiors to feel that they were being treated with indifference, and even with condescension, by their federal opposite numbers in what was then called the Department of External Affairs. The sensation was sometimes shared even by officials in other federal departments. The inhabitants of 'External' were widely regarded as a public service elite, and they sometimes put their status on tiresome display.

In some instances, of course, the resentments that ensued were compounded by substantive policy differences, or by the conviction in Newfoundland and Labrador that the provincial interest would be much better served if only the federal authorities tried a little harder, and there is no question that in some areas the vigour of the federal diplomatic effort on the province's behalf was constrained by preoccupations of a wider sort. Given the differing responsibilities of the two levels of government, and given that Ottawa has to be responsive to the country as a whole and not just to the residents of a single province, this was to some extent inevitable, and the phenomenon is likely to recur.

It is not, moreover, a misery common only to the 'have-nots'. The fury of Alberta over the federal approach to the management of energy exports to the United States at the time of the National Energy Policy is one example that comes readily to mind. The fury of British Columbia at various stages in the evolution of the Pacific salmon dispute is another. The underlying problem is thus not peculiar to Newfoundland and Labrador. That may or may not be a source of comfort. But in assessing the issues that are currently in play, it needs at least to be understood.

The matters on the 'foreign policy' agenda of Newfoundland and Labrador at the moment share a number of obvious characteristics, but some of them have clearly been more troublesome than others. In substantive terms, the list of contentious, or potentially contentious, issues with which the Commission has been provided by provincial authorities includes 14 items. Some of them have a long history, but they are distinguished here by virtue of their being continuing sources of grievance or concern. The observations that follow thus apply to matters that are still relevant to government policy and public debate. Issues that are no longer on the practical agenda (even if they are sometimes raised in public discourse as evidence from the past of the kinds of difficulties the province typically confronts) are *not* included in the analysis.

Five of the 14 currently-relevant issues relate directly to the fishery, as follows:

1) the loss of access to the European market for shrimp that results from the EU Tariff on Shrimp Imports;
2) the loss of access to the U.S. market for seal products as a result of the Marine Mammal Protection Act passed by Congress in 1972;
3) the need to establish a Canada-controlled custodial management regime for the nose and tail of the Grand Banks and the Flemish caps (areas that lie beyond the 200-mile limit);
4) the related need to deal with the inadequacy of NAFO as a resource-protection regime for the fishery outside the EEZ; and,
5) the reluctance of the federal government to make more aggressive use of port closures as a means of disciplining – and deterring – violators of NAFO conservation agreements.

The EU Shrimp Tariff and the U.S. Marine Mammal Protection Act are as much trade issues as fisheries issues, the damage to the interests of Newfoundland and Labrador emanating in the first case from a traditional tariff, and in the second from what amount to non-tariff barriers (or NTBs). In addition to these, three other trade-related issues seem to be of concern:

1) Newfoundland and Labrador would like to see a further strengthening of the North American Free Trade arrangements – an objective now very much on the Ottawa agenda – but *not* at the expense of certain protections at home;
2) Newfoundland and Labrador is anxious to ensure that any settlement of the softwood lumber dispute with the United States not be reached in a way that compromises

the interests of Atlantic Canadian exporters, who have thus far escaped the adverse application of the pertinent American countervails; and,

3) Newfoundland and Labrador, in the context of the pursuit of a Canada-EFTA free trade agreement, is concerned that Ottawa may agree, under pressure from Norway, to give up the current 25 per cent tariff in support of the ship-building industry in Atlantic Canada in return for a Norwegian commitment to remove its own export subsidies in the same field.

Three other issues are linked to "defence," but in fact are about money.

1) The first has to do with the desire of Newfoundland and Labrador to ensure that the maximum possible use is made of CFB Goose Bay for flight training purposes, recognizing that the current training arrangements with the United Kingdom, Germany, the Netherlands and Italy expire in 2006. The province would like to be directly involved in future discussions of this issue.
2) The second is concerned with the province's interest in seeing that the federal government take more aggressive action to ensure that the United States covers the cost of environmental clean-up at the former U.S. military base at Stephenville.
3) The third – not really a 'foreign policy' problem at all – reflects the advantage that would accrue to the province if a larger contingent of the Canadian Forces – more specifically, Maritime Command forces – were based in Newfoundland and Labrador.

A twelfth issue relates to boundaries, but it, like the first five, is really about the fishery. Specifically, it concerns the problem of how to ensure that the straddling fish stocks in the waters included in the territorial sea of St. Pierre and Miquelon and in the adjacent Canadian areas are effectively managed. In substance, this is a problem not unlike the one arising in relation to the nose and tail of the Grand Banks and the Flemish caps, except that the waters at issue are now clearly within the jurisdiction of France rather than being part of the "high seas."

Of the remaining two issues, one concerns the Newfoundland and Labrador interest in seeing that the federal authorities carry through with their commitment to ensure that new immigrants to Canada are concentrated in a reasonably equitable pattern across the country, instead of being concentrated (as they currently are) in a handful of major metropolitan areas. The other relates to the view of the Government of Newfoundland and Labrador that the Kyoto Accord on climate change and the emission of greenhouse gases not be ratified until an implementation plan has been worked out with the provinces (including Newfoundland and Labrador) and other stakeholders.

Ottawa has now publicly declared itself in support of the substance of the NL position on immigration – a position shared by all the other provinces except Quebec.[25] For a variety of reasons, however, the decision may prove difficult, not only from the legal[26] and political[27] but also the administrative[28] points of view, to put into practice. Time will presumably tell.

The Kyoto Accord, on the other hand, has already been ratified, so that the federal authorities – contrary to provincial preference – are effectively seeking to secure internal agreements on how to meet the challenges of implementation *after*, rather than before, the fact.[29]

A number of general observations can be made about this package of issues, among them the following:

1) All of the issues fall into the "functional" category rather than the "high politics" or "classical" issue-areas associated with traditional statecraft. Even the ones that ostensibly bear on the conventionally 'statist' domain associated with national defence are in fact about money, and not about security policy. More precisely, in two of the three defence-related cases they are about the way in which the administration of the defence apparatus could be used to stimulate the economy of Newfoundland and Labrador. In the third case, the objective is to get the United States to shoulder the cost of cleaning up an environmental mess that its Air Force has left behind. Even in reference to the custodial management of the fishery beyond the 200-mile EEZ, the purpose that the authorities in St. John's seem to have in mind is the power only to manage the resource. While some commentators in the province appear to favour a more aggressive strategy – one that would entail the extension of the Exclusive Economic Zone beyond the current 200-mile limit – the official position is apparently more modest. If the intention actually *were* to establish full Canadian sovereignty over the area in question, of course, this *would*, in fact, put the issue into the "high politics" domain.[30]

2) Ultimately, ALL of the issues are really about economics – at least, in the first instance. Given that the way in which we all live depends in large degree on the resources at our disposal, the issues obviously have social and public service implications as well, and in the case of Newfoundland and Labrador, these secondary consequences are particularly significant. This is partly because of the small size and lack of diversity that characterize the province's economy – features that ensure that a serious problem in any single area of economic activity will have an exceptionally significant impact. The variety of economic alternatives being very limited, the capacity to absorb shocks and re-allocate labour is tightly constrained. In the case particularly of the fishery, the severity of the problem is intensified also because the economic activities involved are so closely interlocked with the way in which communities are organized and with their social and cultural life. But, to repeat, all of the issues bear in the first instance on the underlying need to advance the economic development of the province and the prosperity of its citizens.

3) All of the issues, moreover, bear on policies (actual or potential) that clearly fall within federal jurisdiction, even though they may have a greater salience for the people of Newfoundland and Labrador than for anyone else. None of them represents a case in which the federal government is invading, or attempting to invade, the constitutional jurisdiction of the province. The underlying problem, therefore, is not a legal or constitutional one, but a political one. In essence, the province wants to ensure that the federal authorities exercise the powers that are properly at their disposal in a manner that more consistently serves that portion of Canada's citizenry who happen to live in Newfoundland and Labrador.

4) In the case of most (not all) of the issues on the list, any conclusion that would be regarded as satisfactory by the Government of Newfoundland and Labrador would depend on obtaining concessions from a foreign power or an international agency. This is particularly true of the following nine issues: the EU Shrimp Tariff, the U.S. Marine Mammals Protection Act, the custodial management of the fisheries beyond

the 200-mile EEZ, the strengthening of the NAFO regime, the preservation of the Newfoundland Fish Inspection Act in the context of attempts to deepen the NAFTA, the continued maintenance of a protective tariff for Atlantic Canadian ship-builders under the provisions of any pending Canada-EFTA free trade agreement, the continued and/or expanded use by allied powers of the Goose Bay training facility, the reimbursement by the United States of the costs of the Stephenville clean-up, and the introduction of a straddling stocks management regime in the waters around St. Pierre and Miquelon. The same circumstance could also apply to the softwood lumber dispute, although this would be true only if the Americans forced Ottawa to make concessions that would have to be borne by the lumber industry in Atlantic Canada as part of their price for agreeing to a compromise solution to the current problem (which is particularly difficult for British Columbia and Ontario).

5) In the case of four of the remaining five issues – and possibly in the case of the fifth as well – decisions that would be advantageous to Newfoundland and Labrador could conceivably be damaging to other provinces in Canada, and hence they, too, set up an environment of 'cross-pressures' for the federal authorities. A re-assignment of Canadian Maritime Forces, for example, could benefit St. John's but do damage in Halifax. Similarly, the effective management of the immigration process to ensure that a reasonable number of immigrants took up residence in Newfoundland and Labrador might make it more difficult for communities elsewhere to meet their labour requirements.[31] Still again, a more aggressive use of port closures to discipline the excesses of foreign fishing fleets might adversely affect the interests of ports elsewhere in Atlantic Canada without their having any prospect of reaping compensation in the form of enhanced income from the fishery.[32] Similar inter-provincial trade-offs could conceivably be involved in a softwood lumber settlement (NL's fear, after all, is that the trade-offs might be made to Atlantic Canada's disadvantage), and the same could obviously happen in the context of intra-Canadian negotiations over the implementation of the Kyoto Accords (the already-announced exemption of the auto industry, for example, may have the effect of increasing the size of the burden that will have to be carried by other players).

6) Virtually all of the cases that have international dimensions arise in contexts in which Canada is dealing with other issues and interests on its agenda as well, so that, from the (federal) "conduct of foreign policy" point of view, it is difficult to treat the problems that are of particular concern to Newfoundland and Labrador as if they were unrelated to other considerations. More specifically, the Newfoundland agenda intrudes above all on relations with the United States, the European Union, and the international system at large (the latter being represented institutionally by NAFO and more functionally by elements of the international Law of the Sea). These are all contexts that have a bearing on a multiplicity of Canadian concerns, some of them substantive and others 'procedural'. The matters that are of particular concern to Newfoundland and Labrador may not in practice be 'linked' – that is, NL issues may not be subject (*explicitly*, at any rate) to trade-offs against other issues on the Canadian agenda. In the case of the Canada-U.S. relationship in particular, Ottawa much prefers to deal with disputes on a case-by-case basis, which gives them a somewhat better chance than they would otherwise have of being resolved 'on the merits' and at the bureaucratic level. But

even so, there will be concerns about over-loading the agenda and trying the patience of Canada's opposite numbers abroad. More specifically, there is almost always a strong incentive, particularly in dealing with greater powers, to cultivate the general amicability of the international relationship concerned in order to preserve 'access' and maintain a favourable negotiating climate over the longer haul. Even in the case of NAFO and the 'regime' that is effectively imbedded in the international law of the sea, there will be a tendency to avoid 'rocking the boat' in order to pursue what academic students of foreign affairs have sometimes described as "milieu goals" – goals related, among other things, to the general strengthening of a rule-ordered international environment.[13]

Taken together, these various characteristics have the effect of converting the issues on the NL 'foreign policy' agenda into objects of 'politics', pure and simple – the kind of politics that determines who gets what, when and how. The play of this kind of politics *internally* (not externally) is in principle subject to the influence of constitutional change – for example, changes that would guarantee the placement of a much larger number of NL representatives in the institutions of power at the federal level – but in practice this is not a feasible option. The population of Newfoundland and Labrador currently accounts for only 1.7 per cent of the Canadian total, and in recent years it has been dropping dramatically. Like the other smaller provinces, Newfoundland and Labrador is already over-represented.

This means that any hope of giving the foreign policy interests of Newfoundland and Labrador greater play in federal priorities will have to depend on a combination of procedural practices and raw politics, rather than on constitutional adjustments. The implications of this conclusion will be taken up below.

Before turning to that issue, however, there is need to respond to something else.

The Federal Performance – An Assessment

The Commission has requested a general assessment of "how Canadian foreign policy has dealt with Newfoundland and Labrador's interests, and the extent to which those interests have been treated reasonably and fairly within the confines of Canada's international position."

To some extent, this is a matter of raw, and highly subjective, judgment, and the aphorism cited earlier comes once again immediately to mind: "Where you stand depends on where you sit." Sitting in the peanut gallery may serve in some measure to diminish the impact of self-interest – and certainly the interests of office – on the conclusions that are drawn. But in matters of this kind there is probably no such thing as complete freedom from predisposition. The observations that follow are not, and could not be, emanations from a well-established 'science'. In response to them, even in the light of a shared body of evidence, honest folk can honestly disagree.

With this caveat firmly in mind, it may be useful at the outset to distinguish among cases in which the federal authorities (from the point of view of Newfoundland and Labrador) are:

1) not trying at all;

2) trying 'for show' – trying, that is, with a view to appeasing domestic demand, but with no expectation whatever of winning;
3) thinking about trying, but not having decided yet (or delaying fire while waiting for a propitious opportunity to act);
4) half-trying – trying, that is, for *some* of what the province wants, but not for all of it;
5) trying honestly and hard, but failing to win;
6) trying honestly, with the outcome still uncertain; and
7) trying and winning.

It should be noted that some cases may fall into more than one of these categories. On the other hand, the seventh category – "trying and winning" – need not detain us here at all, since cases of that sort are obviously not problematic from the NL point of view. Hence, there are no clear examples of them among the 'problematic 14'. There is no evidence, either, of a Category (2) instance ("trying 'for show'"), although there have certainly been examples of such behaviour – almost always in response to insistent domestic pressure – in other aspects of Canadian foreign policy.[34]

There is also, perhaps, an eighth category, involving cases that may become problems for Newfoundland and Labrador in the future, and hence have attracted pre-emptive consideration in St. John's already, but are not yet actively on the agenda. Two of the 14 cases – the protection of NL fisheries interests in the event of negotiations to deepen the NAFTA, and the continued exemption of the Atlantic softwood lumber interests from U.S. CVD action in any compromise settlement of the ongoing softwood lumber dispute – appear to be of this general type. In addition, the question of how newcomers to Canada are distributed across the country may fall partly, although not entirely, into this category (since the federal authorities agree with NL on the policy principle, but have yet to indicate how they will deliver on the substance).

Leaving the NAFTA and softwood lumber cases to one side, 12 cases remain, and it seems reasonable to assign them to the five categories that are particularly pertinent to this analysis as follows:

Category 1 (not trying at all):

1) EU tariff on shrimp exports (To the extent that something might be done about this down the road, it may have a Category 3 (thinking about trying) dimension, as well, but at the moment the shot seems rather long).
2) Custodial management beyond the 200-mile limit.
3) Canada-EFTA Free Trade Agreement, and protection for ship-building.
4) Stephenville environmental clean-up.
5) Military presence – the stationing of a larger contingent of the Canadian Forces in Newfoundland and Labrador.
6) Implementation of the Kyoto Accord (The federal authorities ratified the Accords without first negotiating an implementation plan with the provinces; on the other hand, they are negotiating *now*. Some might therefore call this a Category 4 (half-trying). But it can also be argued that they are negotiating now

only because they *have* to – that is, because the federal-provincial distribution of powers leaves them without any choice).

Category 2 (trying 'for show'):

None.

Category 3 (thinking about trying):

1) The impact of the U.S. Marine Mammal Protection Act (1972) on the export of seal products to the American market.
2) Continued and expanded use of CFB Goose Bay for low-level flight training.

Category 4 (half-trying):

1) Port closures to discipline NAFO violators (Ottawa is prepared to do this in extreme cases, but not in as many cases as NL authorities would like).
2) St. Pierre and Miquelon - management of straddling fish stocks. (Ottawa supports NL's underlying concern, but is not prepared to pursue it by the particular instruments advocated by the NL government).

Category 5 (trying but failing):

1) NAFO enforcement. (Ottawa has really tried very hard here, even to the point – in the context of the 'Turbot War' – of mobilizing Maritime Command and other enforcement assets. One of the consequences was a quite significant deterioration in Canada's capacity to negotiate effectively with the EU on other issues. The residue of Spanish hostility, for example, led to the exclusion of Canada from the negotiations that led to the conclusion of a so-called "Action Plan" for closer trade, political and security co-operation between the EU and the United States, and forced Ottawa to pursue a second-best bilateral arrangement a year later.[35] On the other hand, it has NOT accepted the NL view that the problem warrants a unilateral take-over of custodial management and enforcement entitlements. Some might therefore prefer to assign the NAFO case to Category 1 (not trying at all)).

Category 6 (trying honestly, with outcome still uncertain):

1) Immigration - internal distribution of newcomers to Canada.

Category 7 (trying and winning):

None.

In coming to general conclusions about the foregoing, while keeping in mind both the constraints on the behaviour of the federal authorities on the one hand, and the aspirations of the Government of Newfoundland and Labrador on the other, it may be useful to break the items down into three groups. The first group would include the issues upon which it is reasonable to suppose that Ottawa has significant room to manoeuvre, should it decide to pursue the NL interest; the second would be composed of issues over which it has *some* room to manoeuvre, but probably not much; and the third would be made up of the issues in which the interests of Newfoundland and Labrador, as these are now defined by the authorities in St. John's, are virtually certain to be overrun by competing considerations that the federal government has to take into account.

Seven of the issues seem to fall clearly into the first of these three groups. This is certainly true of the NAFTA, softwood lumber and Kyoto Accord cases. Negotiations to deepen the NAFTA are still on the drawing board, and may never occur; if they do occur, they may not threaten the NL interest. The softwood lumber dispute is still on-going, but there is every reason to suppose that vigorous action by the Atlantic Canadian provinces will prevent Ottawa from agreeing to a solution that would impose new (CVD) penalties on them in order to relieve the pressure on the lumber industry elsewhere in the country (even assuming that such a solution were to be advocated by the American side). In the case of the implementation of the Kyoto Accords, where negotiations are just beginning, the Government of Newfoundland and Labrador (like the governments of many of the other provinces) may have considerable bargaining leverage (a) because its position will be shared by other provinces, and (b) because it cannot be forced (although it can certainly be enticed) to act in its own areas of jurisdiction in ways that are contrary to its own will.[36]

It also has considerable room to lobby Ottawa on flight training at CFB Goose Bay, not least because the facility has been regarded by several of the allied powers as particularly useful for the purpose. The main constraint here may be a function less of any drive in the Department of National Defence for further base-rationalization than of training decisions taken by other countries as they assess their defence requirements in a rapidly changing international environment.

Subject to the constraints already discussed, the distribution of immigrants is also a matter upon which Ottawa has considerable room to act, and is clearly in the process of doing so.

Finally, while the federal authorities regard port closures as an instrument of enforcement that they would prefer to avoid – they can generate serious diplomatic costs, and have unpleasant repercussions in other areas – the degree to which they are used is just that, a matter of degree. With appropriate pressure, in appropriate circumstances, it is not impossible that Ottawa could be induced to use them more, and there is support for doing so in the Department of Fisheries and Oceans. DFAIT's concerns are not necessarily the decisive elements in the decision-making.

Four of the issues are considerably more difficult from the federal vantage point than the first six, but from the NL point of view there may still be at least a little room for productive importunity. In the case of the Stephenville clean-up, it seems unlikely that the federal authorities at this stage will push the Americans very hard. This is partly because the issue, first unearthed in 1995 but pursuant to the closing of the base as long ago as 1966, is now somewhat 'cold'. That being so, the United States may feel little obligation to treat it as a serious issue on the Canada-U.S. agenda, an attitude that Ottawa will recognize as being difficult to overcome. More significantly, however, the federal authorities may be inhibited by the fact that they have so many other issues to pursue, and by their sense that the Americans are already dissatisfied with what they perceive to be Canada's 'cheap ride' performance in the defence field more generally. This problem has been greatly aggravated in recent weeks by the federal government's decision not to give direct military support to the American intervention in Iraq – a decision whose adverse impact on Canada-U.S. relations has been compounded by the prevarication that typified the manner in which the decision was reached, and by the stunningly tactless and irresponsible utterances of certain federal politicians and officials. The fact that the decision itself has been defended on 'process' grounds – the want of an adequate and appropriately distributed array of supportive votes in the United Nations Security Council – rather than on grounds rooted in national interest or in a serious analysis of the probable consequences of the intervention itself – has only made the problem worse. The Canada-U.S. relationship is thus in serious need of repair. In such circumstances, the Americans are bound to be even less willing than usual to respond favourably to requests of the kind that Newfoundland and Labrador would like Ottawa to make in the Stephenville case. The federal authorities know this very well, and hence will focus on more promising avenues for remedial initiative.

All that being so, and if the matter is truly serious, Newfoundland and Labrador might be better advised to renew its pursuit of compensation from Ottawa itself, rather than trying to persuade DFAIT to chase the Americans on NL's behalf. The damage, after all, came from activities pursuant to arrangements deriving from the federal responsibility to provide for the defence of Canada. The fact that the activities that originally caused the problem resulted from the operations of allied rather than Canadian forces is secondary. In the end, the question at issue is very simple: Who should pay? Newfoundland and Labrador did not create the problem, nor did the damage itself flow from the exercise, directly or indirectly, of a provincial responsibility. On the face of it, it would seems that Ottawa should do the paying, and then, if it wishes, take up the matter of compensation with the Americans on its *own* behalf.

There is probably no more than a marginal prospect of success in the case of the proposal to increase Canadian Forces deployments in Newfoundland and Labrador, and it seems unlikely that any potential gains could be more than token. From the province's point of view, this may well be an infuriating circumstance. The Department of National Defence estimates that its net expenditures (that is, total expenditures less revenues "received by the Department for the provision of goods and services") in the province in fiscal 2001-2002 came to just over $33 million – the lowest figure by far of any province in Canada. The number may seem particularly galling because the NL *revenue* figure (resulting mainly from the provision of flight training services to allied powers) is over $102 million, and is narrowly exceeded only in the cases of Ontario ($122 million) and Alberta ($110 million).[37] The sense of irritation may be heightened by the widespread assumption (not without foundation) that the internal deployment of military assets within Canada has a long history of being driven by political rather than operational criteria – a phenomenon that extends also into the realm of defence procurement.[38]

Part of the difficulty now, however, results from the fact that political leaderships in Ottawa in the 1980s and early 1990s took aim at the economic inefficiencies deriving from the excessive number of military bases across the country, and began a painful process of rationalization. In so doing, they ran into powerful opposition from both provinces and municipalities, and also from vested interests (sometimes rooted in inter-service rivalries) within the Canadian Forces themselves. A number of bases were successfully closed in 1989 (in Summerside, P.E.I., Portage La Prairie, Manitoba, and London, Ontario), along with four radar stations. But the rationalization process was so powerfully obstructed that in the early 1990s the government established a Minister's Advisory Group on Defence Infrastructure in an attempt to find a mechanism that would help it to deal with the political challenges involved. Additional closures and reductions followed.[39] Apart from the practical implications for CF operations, therefore, to say nothing of the probable opposition of other affected provinces, the Forces are unlikely to want now to recreate their original problem. Their natural inclinations in this respect are strengthened by their well-known resource constraints, and by the ensuing incentive to concentrate on getting the biggest bang for the buck.

From the point of view of Newfoundland and Labrador, this problem is compounded by the fact that modern military technology and the current strategic environment are not helpful to the province's cause. The most important bases at issue had their origins in the "destroyers for bases" deal in 1941, when the Americans, even before their entry into the hostilities, had a visible and well-defined security interest in forward deployment and replenishment facilities. In the Cold War period, their interest was reinforced by the need to provide forward surveillance and interception capabilities in order to deal with the threat of a strategic bomber attack by the Soviet Union. This preoccupation declined, however, with the development of Inter-Continental Ballistic Missiles, and now that the Cold War itself has dissipated, U.S. security requirements no longer entail the use of NL territory. Even Canadian deployments, moreover, are being affected by technological change. In 1989, for example, the government announced that the long-range radar establishment at C.F.B. Gander would be dismantled as part of a general modernization programme, and be replaced by more automated equipment requiring the attentions of considerably fewer personnel.

There may still be a little hope here at the margins. It is possible, for example, that appropriately intensive lobbying could lead to the deployment in the province of a larger Search and Rescue establishment. In the event, too, that flight training comes to an end at C.F.B. Goose Bay with the expiry of current allied contracts in 2006, there might be some prospect for making an effective case at the political level for a compensatory alternative investment. Even there, however, it might be wise to think 'outside the box' and not to focus only on military options. This is more easily said than done, but it might nonetheless improve the chances of success if the province did not confine its targeting to the Department of National Defence.

There may also be a potential for making gains in the management of straddling stocks in the waters around St. Pierre and Miquelon, but once again this is likely to happen only if the other player (France) comes to see the issue in positive-sum terms, and agrees to co-operate voluntarily. Absent that condition, the federal authorities are unlikely to press the case very aggressively because they think they have already expended too much diplomatic credit with Europeans on fisheries issues, to the considerable detriment of Canadian interests in trade diversification and related matters. It is possible, in other words, that Ottawa could be persuaded to put additional effort into working the file, but the techniques it would then deploy, in a context in which the French would continue to be very protective of hard-won entitlements, would have more to do with reasoned argument than with diplomatic *force majeure*.

Much the same can be said of the NAFO file, where there may be even less prospect of a significant advance because there are so many other uncontrollable players in the game. At the level of officials, certainly, Ottawa will not be willing in the current international climate to act unilaterally to secure a more effective management and enforcement regime. From the federal point of view, the costs would be too high, and the stakes too small. About all that could be expected from a more intensive lobbying effort by the pertinent private and public sector representatives of Newfoundland and Labrador would be a somewhat more vigorous – and perhaps more public – campaign by federal negotiating teams to extract more effective practices from the existing NAFO apparatus.[40]

In the case of the remaining four issues, the obstacles in the way of attaining NL-friendly solutions seem to be so substantial that the prospects for happy outcomes in the near future are extremely remote. As already noted, there is support in some quarters for the notion that coastal states ought to have management rights even beyond the 200-mile limit (especially, but not solely, where the continental shelf extends that far). But the ramifications are far-reaching, and there is nothing to suggest that the international community as a whole wants to re-open the issue on a multilateral basis in the foreseeable future. Canada's diplomatic capacity to take a constructive initiative here is greatly weakened in any case by its own failure thus far to ratify the Law of the Sea Treaty. On the other hand, it has already accepted the Straddling Stocks Convention, which effectively determines the procedures that it must now follow. That being so, Ottawa is unlikely to do more than make the best it can of the arrangements currently in place, acting pragmatically in response to such opportunities as may arise for useful action within the extant legal framework. Certainly in the foreseeable future, there is little prospect of an aggressively unilateral Canadian initiative on this issue, even if there have been occasions in the past when forceful undertakings of precisely this kind have ultimately triggered the negotiation of treaties – or parts of treaties – creating new international law.[41] Such stratagems work best when the timing is right and the circumstances are opportune. They also work best when their deployment is recognized by all concerned as a reluctantly-pursued exception to normal practice, launched only as a last resort and in response to visibly desperate circumstance. In the context under discussion here, these conditions do not hold.[42]

A similarly overwhelming problem applies also in the case of the Marine Mammal Protection Act (1972), since there is no incentive on the American side of the border to support a modification of the existing legislation, and since the legislation itself is not in any case directed solely to Newfoundland and Labrador (or, for that matter, solely to seals). On the contrary, any attempt in Congress or elsewhere to respond to a Canadian diplomatic initiative in support of the NL position (a response that would effectively entail a special exemption for seal products shipped from Newfoundland and Labrador) would almost certainly arouse a howl of protest among environmentalists and wildlife conservationists in the U.S., and there would be little by way of countervailing political reward to attract members of Congress. In the particular case of the seal herds around Newfoundland and Labrador, the environmentalists may be ill-informed. It is even possible that some of them have intentionally exaggerated the issue for political effect, or to support their fund-raising, or to gain leverage for their advocacies in relation to entirely different marine mammal species. Notwithstanding these possibilities, however, Canada's reputation would receive a serious bruising if it attempted to prosecute the issue. Nor does it appear that there would be grounds under either the GATT rules or the WTO to pursue a remedy by the WTO route, since the restrictions in the legislation apply to potential producers in the United States as well as to imports from producers abroad (i.e., the restrictions amount to "national treatment"). Ottawa is therefore likely to continue its stalling stratagem, because it sees no practical point in doing otherwise. This is a windmill. Why repeat Don Quixote's mistake? Even, moreover, if there were a remote prospect of success, the enterprise would still be regarded as ill-advised, given the many other items on the Canada-U.S. agenda, and given the political costs of arousing the ire of environmental enthusiasts.

The case of the EU tariff on shrimp imports is in a somewhat similar category, there being no discernible incentive for change on the European side, and Ottawa not being in a position to introduce such an incentive at reasonable cost, or without engaging in punitive measures that would escalate the politics. In any event, this does not appear to be a case that can be dealt with on a stand-alone basis, and Ottawa's capacity to twist European arms is clearly very limited.

To repeat, the foregoing are judgments – nothing more, nothing less. Others – including others who have 'inside' information or greater technical expertise – might make them differently. But whether the specific judgments are right or wrong, there can be little doubt that there are greater opportunities for Newfoundland and Labrador in some issue-areas than there are in others. The real question, therefore, is whether there is anything that the province can do to maximize its influence over federal behaviour. To this issue, the discussion now turns.

Canadian Foreign Policy and Newfoundland and Labrador: Strengthening the Hand

In Section 2, sub-section (3) above, it was observed that the 'foreign policy' issues of concern to Newfoundland and Labrador do NOT arise from attempts by the federal authorities to invade provincial jurisdiction. Hence the underlying problem is not legal or constitutional, but political. From the NL point of view, therefore, the real challenge is concerned with the question of how to maximize the province's influence over federal behaviour.

It needs to be said at the outset that there is no 'magic bullet' answer to this question. Newfoundland and Labrador, like the other provinces in Atlantic Canada, and increasingly like Manitoba and Saskatchewan as well, suffers from at least two fundamental disadvantages: (1) it has, even by modest Canadian standards, an extremely small population, and (2) its economy lacks weight. Protected though it may be by Canada's federal structure and the jurisdictional entitlements to which this leads, as well as by significant transfers of public resources from elsewhere in the country, it remains (with others) a have-not province, and its role in determining who gets to rule at the national level is very limited. These are irritating – sometimes debilitating – circumstances. But they are real, and they cannot be wished away. The question is how to make the best of admittedly disadvantageous political realities – how, in effect, to compensate for lack of political 'clout'.

Brief commentaries on what seem to be the available possibilities follow, along with one or two suggestions with regard to tactical-cum-strategic rules of play.

Constitutional Change

In theory, at least, the most obvious of the mechanisms for enhancing one's influence in the political system is to re-arrange its institutions to one's own advantage. In the current context, and in practical terms, this would entail above all increases in the number of NL representatives in the House of Commons, the Senate, or both, and possibly some re-structuring of the rules governing the amount of 'power' they actually possess (as in the case of proposals for a so-called "Triple-E" Senate). This is not, however, a very promising prospect for the foreseeable future. In the first place, there is serious resistance in most parts of the country to the very notion that a major process of constitutional revision ought to be launched. In the second place, if such a process *were* launched, it would be subject to an extremely complex array of political forces that would certainly not be very sensitive to NL influence. In the third place, Newfoundland and Labrador would enter the contest at a considerable disadvantage at the level of principle.

This is because it is already over-represented, whereas the most significant – and perhaps more easily defended – drive for change would come from quarters that currently feel *under*-represented. Fixing the 'foreign policy' problem by re-arranging Canada's representative institutions is not, in short, a viable proposition.

Vigorous Political Representation Inside the Federal Government

Not surprisingly, this is the peg upon which officials in Newfoundland and Labrador hang most of their hope. They do so because the province has sometimes gained considerable advantage from the presence in the Cabinet of an unusually forceful and charismatic 'regional minister' – a minister capable in the appropriate circumstances of winning the support of the Prime Minister and, in the extreme, of bulldozing aside the importunities and hesitations of federal officials and others in pressing the NL interest. In relation to foreign policy, the performance of Mr. Tobin at the time of the 'Turbot War' is everyone's favourite recent example.

There is no question that this can work. There are two problems, however. The first is that it cannot work every time, or even very often, since 'bulldozing' is a blunt political instrument and quickly arouses opposition if overdone. This is particularly the case where its success can only come at the expense of rival interests at home or abroad. Whenever they can, of course, wise ministers will try to fight their wars in gentler style, so that they can preserve the receptiveness of their colleagues to the spectacle of their fighting new wars, or the same wars again, another day. But this is a game of careful political calculation, and playing it well often entails not playing it too hard.

The second and perhaps more fundamental problem is that representation of this kind is contingent on a host of political circumstances, none of which is subject to control by public policy means. It is nice to have a charismatic representative at the Cabinet table in Ottawa. But this requires the recruitment of charismatic individuals into politics. It also requires that they be elected. It requires further that they be elected as members of whatever happens to be the governing party. And it requires finally that the Prime Minister appoints them to ministerial office. Newfoundland and Labrador has had an impressive history of success in meeting all these contingencies. But it has not done so *deliberately*. Certainly it has not done so as the result of carefully calculated initiatives launched by the provincial government. Able people in the province can be urged to run for office, and electors can be urged to vote for them. But this is not a matter for public policy management in the conventional sense.

Procedural and Tactical Stratagems at the Parliamentary Level

It is conceivable that more effective campaigning for the foreign policy interests of Newfoundland and Labrador could take place at the parliamentary level, but for various reasons related to the way in which Canada's system of responsible government actually works, the prospects for improvement here are obviously somewhat limited. In the first place, the ability of NL Members of Parliament to concert their activities is seriously inhibited by the impact of party discipline. Members of the Opposition can pursue the NL interest against federal resistance in such use of Question Time as is available to them, and in the course of other pertinent parliamentary debates. But this will not be a congenial stratagem for those on the government side of the House, who (informal lobbying efforts aside) will instead apply the pressure in caucus, where they are out of public view. In effect, the divisions of party have the side-effect of weakening the influence of such representation as Newfoundland and Labrador actually enjoys.

To some extent this may be overcome in the proceedings of Standing Committees, where party loyalty is sometimes a less confining force. On the other hand, not all the Members from Newfoundland and Labrador will serve on the same committees, so that their influence as a collectivity is inevitably weakened by the way in which committee obligations are distributed. The pertinent 'foreign policy' action, moreover, may itself be spread around the committee system. The Standing Committees of the House that are pertinent to the current NL 'issues list' include not only the Standing Committee on Foreign Affairs and International Trade, but also (among others) the committees dealing with National Defence and Veterans Affairs, Fisheries and Oceans, and Citizenship and Immigration. And on top of all this, the underlying reality is that systems of responsible government are 'executive-dominant,' so that the ability of parliamentary committees to influence government behaviour is entirely dependent on whether the Ministers concerned feel free to accept the advice they receive.

These and related realities mean that Members from Newfoundland and Labrador who are not actually at the Cabinet table have relatively limited ability to concert their efforts in attempting to move a resistant federal government to positions more favourable to NL interests. Tacitly and informally, perhaps (and assuming they are all agreed), they can undertake parallel initiatives in seeking out and actively lobbying promising targets of opportunity, but this is probably not a process that can be accelerated on the initiative of the provincial government.

Procedural and Tactical Stratagems at the Bureaucratic Level

There have been proposals from time to time that would see the placement of provincial officials, or officials explicitly charged with servicing specific provincial interests, in pertinent components of the federal bureaucracy itself. Except, however, on a very occasional basis (involving, for example, the temporary secondment of a provincial public servant to Ottawa for para-educational purposes), this would appear not to be a viable prospect for the foreseeable future, and in any case would be a far too elaborate exercise for the purpose of dealing simply with the matters under discussion here.

It should be noted in any event that in the case of fisheries issues, Newfoundland and Labrador already has its own bureaucratic 'home' in the federal sphere, to the extent that the operations of the Department of Fisheries and Oceans are heavily 'regionalized' for fisheries management, licensing, scientific research and other purposes, and one of its regions is defined so as to include only Newfoundland and Labrador. Among other things, officials assigned to the NL region have independent authority for the licensing, etc., of vessels under 19.8 metres (65 feet) in length.[43] From the point of view of provincial governments, no doubt, this organizational principle can sometimes be a mixed blessing, since it means that DFO will be inclined on many issues to deal directly with fisheries constituencies in a way that effectively leaves the provincial authorities 'out of the loop.' In practice, however, this appears to be less true in the case of the DFO's NL region than it is (say) in the Maritimes region. The climate of expectations in Newfoundland and Labrador seems to have made the Department somewhat more attentive to the consultative expectations of the authorities in St. John's than it sometimes is in other provincial capitals, where the division of labour is more clearly defined. The practice in Newfoundland and Labrador also appears to have been fortified in some respects by explicit agreements and understandings.

Taking all this into account, therefore, the real issue is whether anything can be done, within the broad parameters set by current bureaucratic arrangements, to enhance the attentiveness of federal officials generally to NL 'foreign policy' concerns.

For the reasons already indicated, this is not a question that in practice applies only to the Department of Foreign Affairs and International Trade, which in many areas will be acting abroad in the service of, and in conjunction with, another federal department. The lead federal department in dealing with NAFO, for example, is Fisheries and Oceans, not Foreign Affairs.[44] DFAIT representatives certainly attend NAFO meetings to ensure that DFO positions are consistent with the Canadian position on other relevant external issues, but beyond that Foreign Affairs is not the policy driver.

Having said that, in other areas it may well be the case that federal officials are sometimes loathe to invite their provincial counterparts to involve themselves in the policy-making process (at whatever stage) because they know this will only intensify irreconcilable differences, complicate their own capacity to develop a coherent and defensible negotiation position, inhibit their ability to make the compromises that they regard as essential to the successful conclusion of an international agreement, and so on. They may also be reluctant to deal at close quarters with provincial representatives if they feel the latter are under-informed and difficult to 'educate' in the time available; or that they are too bound (however understandable this may be) by the needs of their own constituencies to be helpful to the making of policies that need to accommodate 'national' requirements; and so on. In circumstances of this kind, the advantages, from the federal point of view, of the *fait accompli* can make it a magnetically attractive option.

That being so, it is entirely reasonable for provincial authorities to insist that they be reasonably treated – for example, that they be kept properly briefed by federal authorities on an on-going basis, that briefings on new issues be provided with sufficient advance notice to allow provincial authorities to investigate their implications and develop a considered view of their own interests, that they be given genuine (as opposed to merely cosmetic) opportunities to make their needs and preferences known at an early stage of the policy process, and that they be given opportunities in appropriate contexts to act as on-site advisers and observers to federal negotiating delegations.[45] It should be understood, moreover, that pressing for such entitlements is (a) completely in line with official DFAIT policy on how to accommodate the provinces in the conduct of foreign policy,[46] and (b) completely in line also with the putative purpose of the Department's on-going commitment to "consultations with Canadians." The personnel and other resources devoted to the latter have escalated enormously in recent years, often with no more than marginal results in 'policy development' terms. In many cases the process has clearly had more to do with 'legitimation' than with a genuine search for policy advice, and it can be argued that intensifying the consultative effort at the level of provincial officials would be a more useful and instructive expenditure of tax dollars.

In this context, the province may wish to consider whether it should press Ottawa to agree to some formal protocols that would define more clearly the circumstances under which it would be obligated to consult with the provinces in relation to foreign policy issues, and the mechanisms that would be employed for this purpose. Such an initiative would almost certainly be resisted by the Department of Foreign Affairs and International Trade, if only because such arrangements would diminish its own freedom to manoeuvre. That being so, it would have to have the strong support of at least some of the other provinces. The idea has apparently been mooted in the past by Alberta and Quebec, but without success, which suggests that other allies would need to be added to the mix.

Whether formalized or not, it should be emphasized that regular and reliable practices of consultation are no guarantee of happy outcomes. By themselves, they will not do away with countervailing political realities, and having the right to be consulted is not the same as having the right to win. But provincial authorities certainly have an entitlement to be heard, and if they are not, they should have no hesitation in banging hard on the door.

Forming Alliances with Other Provinces

One of the more obvious ways in which provinces that are politically weak can amplify their position is to take a leaf from Canadian diplomatic practice, and act in concert with others. It can be argued here that one of the major weaknesses in the behaviour of Atlantic Canadian provinces more generally has been their inability to concert their positions as effectively as they might have done when dealing with the federal government. When the provinces are able to combine their positions – as they are currently doing in significant degree, for example, in relation to the implementation of the Kyoto Accord – they can sometimes greatly enhance their influence. Unfortunately, in the case of many of the issues on the NL 'foreign policy' list, the formation of such alliances is difficult, either because the issue in question is uniquely the preoccupation of Newfoundland and Labrador and has no interest whatever for anyone else, or because other provinces have interests that actually conflict. Clearly in the case of softwood lumber, however, there is a comity of interest with other parts of Atlantic Canada, and to some extent Quebec. This seems to be true also of the shipbuilding tariff at issue in the Canada-EFTA negotiations, as well as the immigration and environment issues. On the other hand, a re-deployment of bases required by Maritime Command could generate a straight fight with Nova Scotia, among others.

This is not, in short, a strategy that can be employed every time, but it is nonetheless possible that it could be used more often.

Forming Alliances with Private Sector Interests

In some instances it may be possible to amplify the capacity of the province to gain the attention of federal authorities by co-ordinating lobbying initiatives with those of private sector organizations, and perhaps even by working informally with friendly Members of Parliament. It seems likely that activities of this kind occur from time to time in any case, but perhaps more by happenstance (or even by federal invitation) than by deliberate orchestration at the provincial level. Such co-ordination is not always appropriate. It is never easy or cost-free. And it can lose impact if overdone, or too frequently done. Nonetheless, if provincial authorities feel that not enough of Ottawa's attention is being given to their needs and preferences, there may be a case for enlarging the wheel and making it squeak. The problem is ultimately a political one, and dealing with political problems often requires the playing of politics.

Maintaining a Provincial Office, or 'Mission" in Ottawa

To facilitate action under items 3, 4, 5 and 6 above, it might be worth considering the establishment of a permanent provincial office, or 'mission', in Ottawa, reporting ultimately to the Premier, but perhaps bureaucratically to the Intergovernmental Affairs Secretariat. It is obviously difficult for an outsider to weigh (with conviction, at least) the 'pros' and 'cons' of such a proposal. Clearly an initiative of this kind would entail on-going administrative costs for the provincial government. Some of these might conceivably be lessened if the effect of the arrangement were to reduce some of the current workload of the St. John's office of the existing Secretariat, so that personnel already on the payroll could be transferred to the Ottawa location. But it would be naive to assume that the job could be done properly without an injection of new resources. *Cognoscenti* in the NL public service are presumably in the best position to advise the government on the question of whether the gains would be sufficient to warrant the additional outlay. It is possible that electronic communications are now so pervasive, and so easily and cheaply accessed, that NL representatives at both the political and administrative levels consider their current contacts sufficiently continuous and widespread to meet their needs. To the extent, however, that effective lobbying can be enhanced by a physical presence in Ottawa – and this is certainly the judgment routinely reached by private and service sector interest groups, if they have the requisite resources at their disposal – establishing such an office might be well worth the effort. If thought appropriate, it could be created in the first instance as an experiment, on perhaps a three-year trial basis. The functions of an Ottawa-based staff, of course, would extend well beyond those associated only with so-called 'foreign policy' issues.

Forming Alliances with the Like-Minded Abroad

One of the strategies now frequently employed by the Department of Foreign Affairs and International Trade in dealing with the United States is to work wherever possible in tandem with American interests that share Canadian concerns. In the case of the dispute over acid rain, for example, there was a natural alignment between the environmental concerns of the Government of Canada on the one hand, and those of the New England states on the other – an alignment that also included certain elements of the American environmental lobby. The Canadian Embassy had no hesitation in "working the politics" accordingly.[47] This is a much more difficult challenge for under-resourced provincial governments – although the game has certainly been played from time to time by the larger provinces (e.g., Quebec, Ontario, Alberta, and B.C.), and there are traces of it in the annual discussions between the New England Governors and the first ministers of Quebec and the Atlantic Provinces. In any event, most of the issues on the current 'foreign policy' list seem not to be very susceptible to this sort of treatment. One possible exception might be the EU tariff on cooked and peeled shrimp, which on the European side seems to serve primarily the interests of processors in Denmark. Instead of trying to get Ottawa to fight the tariff head-on, it might conceivably be more useful to investigate the possibility of working out a constructive solution by promoting cooperation directly between the NL and Danish processors, or by having NL processors establish branch plants in Denmark so that they can do some of the processing in Newfoundland and Labrador, and the final processing in Denmark. Such solutions have apparently been achieved in response to similar problems in other jurisdictions. At the very least, it might accomplish more than a direct assault on the tariff itself is likely to produce.

Concentrating on the Possible

As already indicated, several of the issues of concern to Newfoundland and Labrador seem to be 'lost causes' from the start. The pursuit of an exemption from the application of the U.S. Marine Mammals Protection Act is probably the most dramatic example of an essentially futile endeavour, and it is highly unlikely that the effort adds to the credibility of the province in DFAIT or anywhere else among the Ottawa-informed. The political need to make the attempt may be difficult for the provincial government to ignore, but attempting to respond to it in this case is almost certainly counterproductive. Ottawa will not accede to the pressure to try, and the province therefore cannot hope to deliver. It would be better advised to concentrate its efforts on the issues in which there is at least some hope for advance.

The foregoing may not be regarded as a particularly inspired account of the possibilities, or of their respective strengths and limitations. The basic realities of the position in which Newfoundland and Labrador finds itself in relation to its 'foreign policy' agenda, however, are very clear, and unavoidably daunting. Its underlying problem is the problem of exercising influence in a context in which other, often-more-powerful, influences are also at work. The challenge is thus in the end a political one, and political games require political play.

Summary of Suggestions

1) Recognizing the limitations resulting from the requirements of party discipline and from general parliamentary procedures and politics, Members of Parliament from Newfoundland and Labrador should make maximum use of their opportunities in Ottawa to co-ordinate their strategies in advancing such interests of their province as they hold in common.
2) Provincial ministers and senior officials should lobby their opposite numbers in Ottawa aggressively and consistently to ensure that they are given – well in advance – the information they need and the consultative opportunities they require in order to ensure that their federal counterparts are fully aware of the interests of Newfoundland and Labrador before they embark on international negotiations that are potentially relevant to provincial concerns.
3) Further to Suggestion (2), the province should attempt to build a coalition with other provinces in order to press the federal government to negotiate a series of protocols to define more clearly the circumstances under which it would be obligated to consult

with the provinces in relation to foreign policy issues, and the mechanisms that would be employed for this purpose.

4) More generally, provincial authorities, whenever possible, should seek to act in concert with other provincial governments in bringing the provincial interest to bear on federal decision-makers.

5) The province should also seek, in appropriate cases, to form coalitions with private sector interests in attempting to lobby the federal authorities.

6) The province should give careful consideration to the potential advantages of establishing a permanent office, or 'mission, in Ottawa to enhance its capacity for influencing federal behaviour in areas that affect the interests of Newfoundland and Labrador.

7) In much the same way, the province should seek to identify and work actively with private sector interests abroad in cases where the support of such interests would facilitate the achievement of provincial objectives.

8) The province should concentrate on the causes it has a chance of winning, and avoid tilting at windmills. This may require some active (and possibly unpopular) 'education' of its constituents at home.

Endnotes

[1] The purpose of this paper is "to provide an assessment of Canadian foreign policy from the perspective of the interests of Newfoundland and Labrador." It would not have been possible to write it in the time available without the extensive background briefings provided in writing by the Intergovernmental Affairs Secretariat in St. John's. I am immensely grateful for their contribution, which was both indispensable and thoroughly professional. I am very grateful also to Genevieve Bouchard of the research staff of the Institute for Research on Public Policy, to my colleagues, Danford W. Middlemiss, Jennifer Smith and Gilbert R. Winham, all of the Department of Political Science at Dalhousie University, and Professors Dianne Pothier and Phillip Saunders of Dalhousie's Faculty of Law, and to a number of federal government officials for their assistance in responding so helpfully to my inquiries on a number of technical points. None of them, however, has seen what I have written, and none of them should be blamed for it! I also wish to thank the Commission's Director of Research, Dr. Douglas M. Brown, for his encouragement as well as his authoritative assistance on matters of substance. Finally, I would like to express my appreciation to the two anonymous reviewers of an earlier draft of the manuscript, both of whom offered helpful and constructive comments and suggestions.

[2] The first of the new specialists were the military attaches, to be followed somewhat later by commercial agents, immigration agents, and a host of others.

[3] See, for example, his *Public Opinion* (New York: Macmillan, 1961), esp. Ch. XVII. Originally published in 1922.

[4] Consider, for example, his analysis of "democratic diplomacy" in his *Diplomacy* (New York: Oxford University Press, 1964), pp. 41-54.

[5] Trade commissioners and immigration agents had been posted abroad much earlier, in the latter part of the 19th century, but they were not 'diplomats'. Their task was simply to advertise Canada as a wonderful place to live, work and shop. The first full-dress history of the early Canadian foreign service was H. Gordon Skilling's *Canadian Representation Abroad: From Agency to Embassy* (Toronto: Ryerson, 1945). The definitive account to date is John Hilliker's *Canada's Department of External Affairs: Vol. I - The Early Years, 1909-1946* (Montreal & Kingston: McGill-Queen's University Press for the Institute of Public Administration of Canada and the Minister of Supply and Services Canada, 1990).

[6] There was, perhaps, occasional dissimulation in the claim to be acting in the service of the latter, since what was asserted to be in the interest of the national economy as a whole (e.g., protective tariffs) were often actually in the interest of only a few (e.g., the manufacturing enterprises of central Canada).

[7] For a full account of the role of Parliament in the foreign policy debates of the inter-war period, see James Eayrs, *The Art of the Possible: Government and Foreign Policy in Canada* (Toronto: University of Toronto Press, 1961), esp. pp. 103-112. See also Kim Richard Nossal, *The Politics of Canadian Foreign Policy*, 3rd ed. (Scarborough: Prentice-Hall Canada, 1997), p. 266. Nossal's volume is currently the standard general treatment of the way Canadian foreign policy is made and the internal forces that affect the process.

[8] Part of the reason for this was Pearson's concern not to allow his own prominence and reputation in international affairs to overshadow his foreign Minister. Later Prime Ministers proved to be less sensitive to such niceties.

[9] Trudeau's approach to these matters has been discussed *ad nauseam* in the literature. For a full-dress early treatment, see Bruce Thordarson, *Trudeau and Foreign Policy: a study in decision-making* (Toronto: Oxford University Press, 1972). A somewhat more recent and sprightly account is J.L. Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), esp. Ch. 1.

[10] The final product of the review took the form of a series of six pamphlets under the general title *Foreign Policy for Canadians* (Ottawa: Queen's Printer, 1970). The conceptual exposition is contained in the first pamphlet of the six, and it was sold in the Cabinet with the help of a hexagonal chart in which the various purposes and activities of government were shown to be inter-active with one another and with the domestic and international environments. The Cabinet appears to have enjoyed the intellectual exercise, but it is not clear that Canadian foreign policy behaviour was affected in any practical way as a result of the discussion.

[11] The principal ministers are the Minister of Foreign Affairs and the Minister for International Trade. The 'shared' minister is the Minister for International Co-Operation.

[12] Since heads of government are themselves the 'last-say' decision-makers, the only way they can attempt to achieve this sort of protective coating is to argue that their capacity to make concessions is seriously confined by public opinion or some other force of domestic politics – a strategy that is sometimes credible, but often not.

[13] Whether these consultative practices really *are* more 'democratic' is a matter that has been hotly contested in the literature. See, for example, Kim Richard Nossal, "The Democratization of Canadian Foreign Policy?", *Canadian Foreign Policy*, Vol. I, No. 3 (Fall 1999), pp.95-105, and "The Democratization of Canadian Foreign Policy: The Elusive Ideal," in Maxwell A. Cameron and Maureen Appel Molot, eds., *Democracy and Foreign Policy: Canada Among Nations 1995* (Ottawa: Carleton University Press, 1995), pp. 29-43. Other chapters in this volume also address the issues involved, albeit from different vantage points. For more recent discussions, see in particular Maxwell A. Cameron, "Democratization of Foreign Policy: The Ottawa Process as a Model," *Canadian Foreign Policy*, Vol. 5, No. 3 (Spring 1998), pp. 147-165; and Marc Neufeld, "Democratization and Canadian Foreign Policy: Critical Reflections," *Studies in Political Economy*, no. 58 (Spring 1999), pp. 97-119. I have ruminated on the problem myself in "Foreign Policy Consultations in a Globalizing World: The Case of Canada, the WTO, and the Shenanigans in Seattle," *Policy Matters*, Vol. 1, No. 8 (Montreal: Institute for Research on Public Policy, December 2000), and "Transnational Pluralism and the 'Democratization' of Canadian Foreign Policy at the Turn of the Millennium," in William Cross, ed., *Political Parties, Representation, and Electoral Democracy in Canada* (Don Mills: Oxford University Press, 2002), pp. 161-180.

[14] In the field of foreign policy analysis, this genre of inquiry was kicked off by a famous study of American (and Soviet) decision-making in the context of the 1962 Cuban missile

crisis. See Graham T. Allison, *Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971). A discussion of the applicability of the Allison model to the Canadian case can be found in Kim Richard Nossal, "Allison through the (Ottawa) Looking Glass: Bureaucratic Politics and Foreign Policy in a Parliamentary System," *Canadian Public Administration*, Vol. 22, No. 4 (Winter 1979), pp. 610-626.

[15] The term is associated with the so-called "disjointed incrementalism" model of how public policy decisions tend to be made in modern states. See David Braybrooke and Charles E. Lindblom, *A Strategy of Decision: Policy Evaluation as a Social Process* (New York: The Free Press, 1963).

[16] Residents of Newfoundland and Labrador may be amused to know that one of the most important of the precedents, confirming Canada's capacity to sign an international treaty on its own behalf, was established at the time of the conclusion of the Halibut Fisheries Treaty of 1923, when American Senators agreed to accept a Canadian signature in lieu of the British. The halibut at issue, however, swam in the Pacific, not the Atlantic.

[17] A very useful documentary review of these and related matters can be found in Howard A. Leeson and Wilfried Vanderelst, *External Affairs and Canadian Federalism: The History of a Dilemma* (Toronto: Holt, Rinehart and Winston, 1973). The Ottawa view was explicated long ago in response to challenges from Quebec. See Honourable Paul Martin, Secretary of State for External Affairs, *Federalism and International Relations* (Ottawa: Queen's Printer, 1968).

[18] Honourable Paul Martin, *ibid.*

[19] The World Health Organization (WHO), for example, or the Food and Agriculture Organization (FAO).

[20] The provinces themselves, of course, do not always bay in unison, as the currently volatile example of the Kyoto Accord attests.

[21] For interesting recent discussions of these and related matters, see Grace Skogstad, International Trade Policy and Canadian Federalism: A Constructive Tension?" in Herman Bakvis and Grace Skogstad, eds., *Canadian Federalism: Performance, Effectiveness, and Legitimacy* (Don Mills: Oxford University Press, 2002), and Stephen de Boer, Canadian Provinces, US States and North American Integration: Bench Warmers or Key Players?" *Choices*, Vol. 8, No. 4 (Montreal: Institute for Research on Public Policy, November 2002).

[22] One of the more spectacular cases in relatively recent times concerned the negotiation of the Canada-U.S. Free Trade Agreement – the precursor to NAFTA – in the 1980s, when the Chief Negotiator for the Canadian Side, Simon Reisman, made it clear that he would not allow himself to be hamstrung (as he saw it) during the course of the negotiations by intrusions from provincial authorities (or even other components of the federal government itself). He was prepared to consult with the provinces from time to time, but insisted on having a free hand at the negotiating table. Provincial authorities received briefings, but few of them felt that they were really a part of the process. Interestingly, the way they were treated is differently assessed by different observers. Compare, for example, the

account of Michael Hart in his *Decision at Midnight: Inside the Canada-U.S. Free-Trade Negotiations* (Vancouver: UBC Press, 1994), pp. 137-140, with that of G. Bruce Doern and Brian W. Tomlin, *Faith and Fear: The Free Trade Story* (Toronto: Stoddart, 1991), esp. Ch. 6, entitled "No Seat at the Table." In recent years, however, there appears to have been considerable improvement, at least with respect to the flow of information. This is partly a result of the ease of communications afforded by the Internet. Confidential interviews. See also Stephen de Boer, *op. cit.*

[23] It is interesting to observe that they closely mirror the reactions of many officials and constituency groups to their experience with the practice of "consulting with Canadians" more generally.

[24] The phrase is Graham T. Allison's. See *op. cit.*, p.176.

[25] Quebec appears not to be opposed to the objective, but, having its own immigrant selection system, it has no interest in federal initiatives in this area.

[26] The initiative may be open to challenge under the mobility provisions of the Charter of Rights and Freedoms, although its application to "landed immigrants" rather than to "citizens" or "permanent residents" may give it some wiggle-room. At the moment, in any case, it appears that the Department of Citizenship and Immigration is reasonably confident of its legal position.

[27] It is not impossible that it will be resented by various newcomer communities.

[28] The principal problem here may have to do with enforcement. How will the immigration authorities seek to ensure that the new arrivals remain in their places of initially assigned residence, and how (if at all) will they respond in cases where the contract is violated?

[29] In practice, this may actually give the provinces a great deal of bargaining power, since they can now embarrass the federal authorities by refusing to cooperate in the implementation of the agreement unless it is done on their own terms.

[30] There is, of course, an argument in the literature on international law to the effect that sovereignty is really indivisible, and hence that a claim to an entitlement to 'manage' (and hence to regulate) even very limited activities in a particular territory really amounts to a sovereignty claim. But in practical terms that issue has been resolved by recent agreements on the international law of the sea, particularly in relation to the establishment of the 200-mile EEZ, and the arcane niceties of the problem need not detain us here.

[31] This may work both ways, however, in that there is now at least some evidence that immigrants, however essential they are to the promotion of economic growth over the long run, can impose a 'front-end load' on local social service agencies during the period when they are settling in. It is not impossible that St. John's, for example, would find itself paying this front-end cost, only to see successfully-acculturated newcomers move to central Canada or the West once their required period of NL residency had been fulfilled. But that's another matter.

[32] Having said that, there is no evidence to suggest that interests associated with other Atlantic Canadian ports would in practice be unduly concerned, and port closures in the past appear not to have been the cause of lamentation elsewhere in the region.

[33] The phrase comes from Harold and Margaret Sprout, "Environmental Factors in the Study of International Politics," *The Journal of Conflict Resolution*, Vol. I (1957), pp. 309-328.

[34] In response to what Canadians regard as misbehaviours on the part of political leaders and others elsewhere in the world, for example, DFAIT quite routinely issues statements of condemnation. In the vast majority of cases, no one in Ottawa expects these to have any discernible impact on the behaviours in question. The purpose is simply to appease the indignant at home.

[35] For an excellent analysis of the diplomatic and political complexities of the 'Turbot War' from both the Canadian and EU perspectives, see Donald Barry, "The Canada-European Union turbot war: Internal politics and transatlantic bargaining," *International Journal*, Vol. LIII, No. 2 (Spring 1998), pp. 253-284. The public, as well as the bureaucratic, politics of the Canadian position has been treated in the context of more general interpretations of Canadian foreign policy behaviour by Andrew F. Cooper under the title "The Politics of Environmental Security: The Case of the Canada-Spain 'Fish War'," in his *Canadian Foreign Policy: Old Habits and New Directions* (Scarborough, Ont.: Prentice Hall Allyn and Bacon, 1997), pp. 142-72. International lawyers have tended to take a dim view of Canadian policy. See, for example, Ted L. McDorman, "Canada's Aggressive Fisheries Actions: Will They Improve the Climate for International Agreements?" *Canadian Foreign Policy*, Vol. II, No. 3 (Winter 1994-95), pp. 5-28.

But there are dissenters among them, as in the case of J. Alan Beesley, Q.C., and Malcolm Rowe, Q.C., "The Basis in International Law for Canada's Actions in the 'Turbot War'," *Canadian Council on International Law*, Vol. 22, No. 2 (December 1995). John Crosbie has expressed a preference for a traditional "quiet diplomacy" approach to matters of this kind. See his *No Holds Barred: My Life in Politics* (Toronto: McClelland & Stewart, 1997), pp. 392-97. Brian Tobin's personal account of the episode – including the early resistance of his own officials – can be found in his *All In Good Time* (Toronto: Penguin Canada, 2002). It is possible, of course, to argue that the EU connection is weakening anyway, and that not much has come of Canadian efforts over the period since World War II to forge trans-Atlantic linkages by diplomatic means. For a review and assessment of this enterprise, see Denis Stairs, "The Pursuit of Economic Architecture by Diplomatic Means: The Case of Canada in Europe," in Donald Barry and Ronald C. Keith, eds., *Regionalism, Multilateralism and the Politics of Global Trade* (Vancouver and Toronto:: UBC Press, 1999), pp. 228-252.

[36] The imaginatively inclined may wonder whether the federal government's unilateral decision to sign the Kyoto Accord could be challenged in the Supreme Court on the basis of the principles underlying the Labour Conventions Case (discussed above in Section 1, sub-section (5)). It should be remembered, however, that the decision in that case did not challenge Ottawa's right to conclude international treaties. It only asserted that the federal authorities could not use their treaty-making entitlement to invade provincial jurisdiction

– that is, to compel provincial governments to act against their own preferences within their own constitutional bailiwicks. In the Kyoto context, however, there are certain ambiguities in play, and these could impart to the Court some room for manoeuvre that it could easily decide to exploit in unpredictable ways. In the first place, some aspects of the regulation of the atmospheric environment fall into areas of shared, rather than purely provincial, jurisdiction. Given the scope of the 'global warming' problem, moreover, it is not inconceivable that the court could rule that the subject-matter of such issues as might be in dispute was of such national significance that it could properly be interpreted as falling entirely within federal jurisdiction under the "peace, order and good government" clause, the "trade and commerce" power, or some other convenient constitutional provision. In short, even if it is unlikely that the court would challenge *directly* the principles of the Labour Conventions Case with regard to treaty implementation, it might well find other grounds in the Kyoto context (and therefore potentially in others) for weakening their practical effect. All things considered, the wiser course would seem to be for the provinces to focus on the implementation issue, and more specifically on the question of who should foot the bill. Here they should have considerable leverage, particularly if they are able to act in concert. And since Ottawa has already made financial concessions to Ontario (the auto industry) and Alberta (tar sands), Newfoundland and Labrador (among others) has more-than-reasonable grounds for driving a hard bargain.

[37] The data are available through the Department's web site at <http:/www.forces.gc.ca/>, with a link to <fincs/financial_docs/expend/2002/Publications_final_e.asp>. Net expenditures are highest in Ontario (just under $4.6 billion) and Quebec (about $1.9 billion), followed by Nova Scotia ($885 million) and Alberta ($772 million).

[38] For a brief analysis of the politics resulting from provincial and municipal interests in these matters, see D.W. Middlemiss and J.J. Sokolsky, *Canadian Defence: Decisions and Determinants* (Toronto: Harcourt Brace Jovanovich, Canada, 1989), esp. pp. 126-129.

[39] For a review of these matters in the context of a comparison of the Canadian and American experiences, see Lilly J. Goren and P. Witney Lackenbauer, "The Comparative Politics of Military Base Closures," *Canadian-American Public Policy*, No. 43 (September 2000).

[40] As an aside, it should be understood that Canada's credibility in international discussions of this kind has not been enhanced by the obvious failure of its own attempts to establish effective management regimes for several of the species located, not outside, but inside the 200-mile limit. A multiplicity of variables seems to be at work here – changing water temperatures among them. The science, moreover, is imperfect, and the data to which it has been applied have not always been reliable (to say the least). But it would be blind folly to ignore the fact that over-fishing – pure and simple – has played a major role. The Europeans, among others, are fully aware of this reality. Their being so hardly advances the Canadian case.

[41] Some students of the subject would argue that the Arctic Waters Pollution Prevention Act (1970) played precisely this kind of role. Interestingly, the initiative in that instance was taken by the Prime Minister's Office, and not by the Legal Division of the Department of External Affairs, which was the primary author of all the other Canadian initiatives in

the context of the Law of the Sea negotiations in the 1970s. See Elizabeth Riddell-Dixon, *Canada and the International Seabed: Domestic Interests and External Constraints* (Kingston, Montreal, London: McGill-Queen's University Press, 1989), p. 65.

[42] These matters have been assessed for the Royal Commission in much greater detail elsewhere by Professor Phillip Saunders of Dalhousie University's Faculty of Law.

[43] In the case of vessels longer than 65 feet, the regional office has to co-ordinate with DFA headquarters in Ottawa.

[44] The same is true in the case of the International Commission for the Conservation of Atlantic Tuna (UCAT) and a number of other fisheries-related regimes, including the ones that are devoted to the management of both the Atlantic and Pacific salmon fisheries.

[45] In the case of NAFO, certainly, this is already standard practice, and NL representatives are reputed to play the dominant role in advancing the Canadian case. Clearly the results, from the NL point of view, have been frustrating and unsatisfactory, but the explanation seems to lie in the structure, mandate and politics of the organization itself, rather than in federal indifference to NL interests.

[46] Honourable Paul Martin, *op. cit.*

[47] The first Canadian ambassador in Washington to act in this way on a systematic basis was Allan Gotlieb. For an immensely engaging account of his experience, see his *I'll be with you in a minute, Mr.Ambassador: The Education of a Canadian Diplomat in Washington* (Toronto: University of Toronto Press, 1991). The acid raid case is considered from this point of view by Stephen Clarkson in his *Canada and the Reagan Challenge* (Ottawa: Canadian Institute for Economic Policy, 1982), pp. 183-203.

Royal Commission on Renewing
and Strengthening Our Place in Canada

Reviewing Canada's Regional Development Efforts

– Donald J. Savoie

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The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

ABSTRACT

Federal regional development efforts have been subjected to sharp twists and turns ever since they were first introduced in the early 1960s. They were initially designed to benefit have-less provinces, but we argue in this paper that they lost their way when they were enlisted to contribute to national unity. The paper identifies seminal moments in federal regional development policy. It also reviews recent developments in the regional development field and new thinking in Ottawa about the sector. It considers suggestions, increasingly being heard, that we should redefine Canada's regional development problem into an urban-rural one rather than a regional or provincial one.

The paper draws conclusions on federal regional development efforts to date and presents broad recommendations for policy makers in Newfoundland and Labrador to consider. It argues that the lack of strong success in Ottawa's regional development efforts in the province has a great deal to do with the inability of national political institutions to accommodate regional interests. The paper suggests that, unless these institutions are reformed, federal regional development efforts will continue to work at the margin.

Contents

Reviewing Canada's Regional Development Efforts 195
Looking Back 195
Identifying Seminal Moments 203
Needs Versus Opportunities Debate 207
Per Capita Income 209
Key Issues 215

Endnotes 223
Bibliography 225

Reviewing Canada's Regional Development Efforts

Canadian regional development policy and programs have had several important twists and turns since their beginning in the early 1960s. The federal government has ever since sought to promote regional balance in the national economy through a variety of programs. Some of these programs have been overhauled, others have been scrapped and new ones have been launched over the years as the government adjusted its policy and programming to reflect changing economic circumstances. The purpose of this exercise is to review the evolution of Canada's regional development efforts and the objective is to shed new light on Canada's regional development policy to see if it should be adjusted and, if so, how. We do this from the perspective of Newfoundland and Labrador. More specifically, it:

- reviews past and present regional policy initiatives;
- identifies seminal moments in the development of Canada's regional development policy;
- reviews and analyses the «needs» and «opportunities» debate that has shaped regional development efforts;
- provides recommendations on possible directions for future regional development initiatives; and
- provides recommendations to policy makers in Newfoundland and Labrador as they ponder the place of their province in Canada.

Looking Back

The history of Canada's regional development has been well documented elsewhere and there is no need to do it again in any detail here.[1] Suffice to report briefly on the more important developments and identify the seminal moments that have shaped Canada's regional policy.

As a backdrop to this review, we need to underline two points: Canada's regional nature and the importance of federal-provincial relations. It is often said that while some countries have too much history, Canada has too much geography. Indeed, it is hardly possible to overstate the importance of regionalism to Canada's political life. The fact that the country's national political institutions, notably the Senate, have not been particularly adroit at accommodating the regional factor has placed added stress on the executive to deal with regional concerns and grievances. This has been particularly true with departments, agencies and programs in the regional development field.

Federal-provincial relations have played a central role in federal regional development programs from their very beginning. The federal government's responsibility for economic development involves the advancement of the country as a whole, just as that of a provincial government is the advancement of the province. The responsibilities of both governments invariably overlap, as do their activities, which flow into one another. The result is that no one questions the importance of federal-provincial relations. It is important, however, not to equate federal-provincial cooperation with federal-provincial programs. It is possible to have one without the other and there is evidence of this throughout the history of federal regional development programs. This is not to suggest that this makes for easy federal-provincial relations but it is possible.

Looking back to history, we know that from 1867 to the mid-1950s, the Canadian government had no explicit policy of regional development. It directed its economic policy essentially toward the development of the national economy. The widely held view was that a strong national economy, based on east-west trade and tariffs, would benefit all regions. History now reveals that this view was wrong.

Only after the Second World War did the federal government show greater concern for a regional balance in economic activity, perhaps because regional differences became much more apparent in these years. What brought the federal government to recognize regional economic imbalances was the fiscal weakness of the poorer provinces. In a very harsh manner, the Depression years had revealed this weakness. The Rowell-Sirois Commission had been established in 1937 to re-examine «the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last 70 years.» Essentially pessimistic about the capacity of governments to work together efficiently in joint activities, the Commission had favoured a clear delimitation of power. It had concluded that the Canadian fiscal system should enable every province to provide an acceptable standard of services, without having to impose a heavier-than-average tax burden. It had recommended a strengthening of the federal government's economic powers and a series of national grants to the poorer provinces so that they could offer public services broadly equivalent to those in the richer provinces.

Two decades later, in 1957, the federal government set up the fiscal equalization program. It was intended to reduce disparities in terms of public services between regions, to achieve a national standard in public services, and at the same time to equalize provincial government revenues. Ottawa thus undertook to ensure that all provinces would have revenues sufficient to offer an acceptable level of public services. The payments help poorer provinces provide services, but do not necessarily assist them in integrating their economies more successfully into the national economy and in supporting regional growth from within.

Equalization payments have had a substantial impact on smaller have-less provinces. In his review of the Smallwood legacy, Ralph Matthews documents the impact of federal transfer payments on the Newfoundland and Labrador economy. He writes that «developments in education, in transportation, and in communication were the cornerstone of Smallwood's development policy.» Federal government transfers enabled Smallwood to focus his government's effort in these areas and in 1969 to boast that on the day he became Premier there were "84 schools with indoor toilets. Today, 838 schools have indoor toilets." However, though clearly desirable from a socio-economic perspective and for the provision of public services, the emphasis on providing a higher level of public services "left little for resources exploitation or industrial development."

Another royal commission at the national level was to come forward with suggestions about establishing special economic development plans. The Royal Commission on Canada's Economic Prospects (the Gordon Commission) reported in 1957 that «a bold and comprehensive and coordinated approach» was needed to resolve the underlying problems of the Atlantic region, which required special measures to improve its economic framework. As with the Rowell-Sirois Commission, the Gordon Commission's recommendations were to play an important role several years after being made public.

Table 1 - Evolution of Canadian Regional Development Programming

Year	Program	Regional Application
1960	Tax incentives	Regions with high unemployment and slow economic growth
1960	Agriculture Rehabilitation and Development Act (ARDA)	Economically-depressed rural areas
1962	Atlantic Development Board	Atlantic Canada
1963	Area Development Agency and new tax incentives	Economically-depressed areas
1965	Revisions made to the 1963 changes to make them more generous	Economically-depressed areas
1966	ARDA renamed Agricultural and Rural Development Act	Alleviating rural poverty and non-agricultural measures
1966	Fund for Rural Economic Development (FRED)	Selected regions with low income and major economic problems
1969	Department of Regional Economic Expansion (DREE) and two new programmes, Special Areas (Growth Poles) and Regional Industrial Incentives Act (RDIA)	Focus on Atlantic Canada and Eastern Quebec
1973 -74	Introduction of General Development Agreements (GDAs) and revisions to RDIA. GDAs subsequently renamed Economic and Regional Development Agreements (ERDAs) and later still Cooperation Agreements	Focus became more national in scope
1982	DREE abolished. Ministry of State for Economic and Regional Development (MSERD) and Department of Regional Industrial Expansion (DRIE) established. A new program, Industrial and Regional Development Program (IRDP) based on a "development index" was also introduced	National and a shift away from "need" to "opportunity." The development index covered all of Canada.
1984	MSERD abolished	
1988	DRIE abolished and a new Department of Industry, Science and Technology established. Three new regional agencies established (ACOA, WD, FEDNOR) and a special fund established for Quebec	National
1991	A regional agency established for Quebec (FORD-Q) and renamed Canada Economic Development Quebec (1998)	
1993	Department of Industry, Science and Technology (DIST) renamed Department of Industry	

The 1960 budget speech unveiled the first of many measures Ottawa has developed to combat regional disparities. The budget permitted firms to obtain double the normal rate of capital-cost allowances on most of the assets they acquired to produce new products — if they located in designated regions (with high unemployment and slow economic growth).

Shortly after this measure was introduced, Parliament passed the Agricultural Rehabilitation and Development Act (ARDA). It was an attempt to rebuild the depressed rural economy and represented Ottawa's first «regional» development program. ARDA began as a federal-provincial effort to stimulate agricultural development in order to increase income in rural areas. It aimed to increase small farmers' output and productivity by providing assistance for alternative use of marginal land, creating work opportunities in rural areas, developing water and soil resources, and setting up projects designed to benefit people engaged in natural-resource industries other than agriculture, such as fisheries. Later, in 1966, the program was renamed the Agriculture and Rural Development Act, and its objectives were adjusted. It could now support non-agricultural measures to promote growth in economically depressed rural areas. Reducing rural poverty became ARDA's overriding objective. Notwithstanding these adjustments, however, some Ottawa decision-makers believed that ARDA still had one serious drawback: it lacked an appropriate geographical focus. In brief, it was «all over the Canadian map.»[5]

The Fund for Rural Economic Development (FRED), introduced in 1966, would deal with this concern. The program could be applied only in designated regions, with widespread low incomes and major problems of economic adjustment. In the end, five regions were identified under FRED: the Interlake region of Manitoba, the Gaspé peninsula in Quebec, the Mactaquac and northeastern regions of New Brunswick, and all of Prince Edward Island. Separate «comprehensive development plans» were then formulated for those five regions to develop infrastructure and industry. The focus of FRED programs was clearly on regional needs and its scope was limited to a handful of regions.

The federal government introduced in 1962 yet another development initiative — the Atlantic Development Board (ADB). Unlike other regional development programs, this board would be active only in the four Atlantic provinces, as its name implied. Shortly after its creation, the board was given an Atlantic Development Fund to administer. By and large, the fund was employed to assist in the provision or improvement of the region's basic economic infrastructure. Over half of the fund, which totalled $186 million, was spent on highway construction and water and sewerage systems. Some money was spent on electrical generating and transmission facilities and in servicing new industrial parks at various locations throughout the region.

The federal government introduced still other measures to promote regional development in the form of the Area Development Incentives Act (ADIA) and the Area Development Agency (ADA) within the Department of Industry. Legislation establishing ADIA was passed in 1963. The central purpose behind these initiatives was to turn to the private sector to stimulate growth in economically depressed regions. This was to be done by enriching existing tax incentives and by introducing capital grants in designated areas.[6]

Regions of high unemployment and slow growth were the target of these measures. Only regions reporting unemployment rates above a specified threshold level would become eligible. Manufacturing and processing firms were then invited to locate or expand operations in these regions. Three kinds of tax incentives were applied sequentially: accelerated capital-cost allowances, a three-year income-tax exemption, and higher capital-cost allowances. In 1965, a new program of cash grants was introduced over and above the capital-cost allowances.

Assistance was provided automatically on a formula basis and it was applied in a non-discretionary manner to areas chosen solely on the basis of unemployment levels. The formula was applauded by have-less regions but it was not without problems and critics. The formula worked fine in terms of allocating resources, but often the areas designated had limited potential for economic development. The result is that on occasions there were too much public funds chasing too few viable economic development initiatives. This speaks to a fundamental problem in establishing funding levels for regional development resources that has yet to be resolved. That is, how does one draw the line between economic needs and economic potential or economic opportunities?

For a brief period, at least, it was felt that the puzzle had been solved. Trudeau established a new Department of Regional Economic Expansion (DREE) and declared «If the underdevelopment of the Atlantic provinces is not corrected, not by charity or subsidy, but by helping them become areas of economic growth, then the unity of the country is almost as surely destroyed as it would be by English-French confrontation.»[7] It will also be recalled that the mid- and late 1960s saw strong but uneven growth in the national economy and, relatively speaking, a burgeoning federal treasury. The federal government moved toward explicit redistributive priorities, as seen in the Canada Pension Plan, the Medical Care Act (Medicare), and the Canada Assistance Plan.

Marchand, the first DREE Minister, and his Deputy Minister Tom Kent decided to focus their efforts on economic development «needs» but with an important caveat. It would focus on slow-growth regions, but look to growth areas within these regions to promote economic development. For this reason, DREE embraced the «growth pole» concept. Marchand explained that the objective was to give Atlantic Canadians the option of staying in the Atlantic provinces. Marchand and Kent believed that the main difference between Ontario and the Atlantic provinces was that Ontario had major urban centres with vigorous economic growth to which people from Northern Ontario could move. The Atlantic region had few cities capable of strong growth and of providing employment; consequently, many people remained in economically depressed rural areas or left the region. The growth-pole concept, it was believed, could create new opportunities at selected urban centres. Accordingly, economic growth would take place through movement and change within regions, rather than between regions.[8]

The federal government would implement the growth-pole concept through two new programs: the Special Areas program and the Regional Development Incentives Act (RDIA). The two shared the same objective: to encourage manufacturing and processing industry in the slow-growth regions. Industrial centres with the potential for attracting manufacturing and processing firms would be chosen. A Special Area agreement with the relevant provincial government would then be signed. This would provide for construction or improvement of the infrastructure — roads, water and sewer systems, and schools — within which industrial growth could occur.

What about the regional application of these two programs? The federal government decided to stand firm on the number of regions designated with Marchand insisting that «the more you extend it — special areas — the more you weaken it. We have to stick to our guns.» In the end, the federal government was able to limit the number of designated Special Areas to about what it had initially envisaged — 23. The regions designated for the RDIA program included all the Atlantic provinces, eastern and northern Quebec, parts of northern Ontario, and the northernmost regions of the four western provinces. Thus, regions were designated in all 10 provinces. Parts of Ontario, Alberta, and British Columbia were designated more as a gesture to ensure that these provinces would not feel completely left out of a federal government program. The thinking was that these provinces, given their relatively strong fiscal positions, might establish their own incentives programs, thereby greatly inhibiting the new federal initiative. In any event, the regional incentives program would be complementary to the larger, more expensive Special Areas program. With the benefits of these two programs combined, it was felt, industrialists would dismiss smaller communities out of hand and opt for the growth-pole areas in slow-growth regions to locate new plants. Certainly, viewed with the benefit of hindsight, regional designation of DREE's industrial incentives program in 1969 was highly restrictive.

All of the above make the case that in DREE's early years, federal regional development efforts sought to take into account both «needs» and «opportunities» in establishing spending patterns. The focus was on «needs» because the most of the efforts and resources were concentrated in slow-growth regions. On this point, DREE's first Minister, Jean Marchand, would often argue that if the bulk of federal government spending (i.e., 80 per cent) for regional development was not spent east of Trois-Rivières, then Ottawa's regional development efforts would fail. The focus was also on «opportunities» because the strategy was built around the growth centre concept or on communities within slow-growth regions that showed strong prospects for economic growth. This last point is significant because it would shift federal regional development policy away from a reliance on regional «needs» to guide its spending. In the case of Newfoundland and Labrador, St. John's was designated to realize substantially faster industrial growth. In addition, the Burin Peninsula, Gander-Stephenville, Hawke's Bay, Come-by-Chance and Goose Bay (Happy Valley) were designated in order to make them more attractive as «receiving centres» under the Newfoundland Resettlement Program.[9]

But the growth pole strategy soon ran into difficulties. In the early 1970s, it became clear that Montreal's growth performance rate was not keeping pace with expectations. The city's unemployment rate stood at 7.0 per cent in 1972, compared with 4.6 per cent for Toronto. Further, Quebec's economic strength, it was argued time and again, was directly linked to Montreal, and, unless new employment opportunities were created there, little hope was held for the province's peripheral areas. Montreal required special measures, it was argued, to return to a reasonable rate of growth. Added to this were the growing concerns about Quebec's place in Canada and national unity.

The federal government decided to designate Montreal as a Special Region in the early 1970s. The new Special Region included Montreal, southwestern Quebec, including Hull, and three counties of eastern Ontario. The Region was designated for a two-year period only which, it was assumed, would be sufficient to help Montreal return to a reasonable rate of growth. It was also assumed that designating Montreal for federal regional development assistance would demonstrate to Quebec that Canadian federalism could be made to work.

But the Montreal designation became a seminal moment in federal regional development programming. If Montreal could be designated then why not Winnipeg, Vancouver, Windsor, or even Toronto? If Montreal, then why not slow-growth communities in slow-growth regions? Regions not designated as Special Areas were arguing more and more that they too could use federal financing for economic development. To many in the non-designated regions, it seemed that the federal government was, in effect, saying that only selected regions should grow. If only Ottawa could see its way into designating their communities, then economic growth would be sure to follow.

The federal government, it will be recalled, decided to overhaul its regional development policy (circa 1972-74). DREE was decentralized, the Special Areas program was scrapped and the bulk of regional development programming would in future be made under highly flexible federal-provincial agreements (first through General Development Agreements — GDA, then subsequently, Economic and Regional Development Agreement and Cooperation Agreements). These agreements provided funding to provincial governments to pursue economic development initiatives and they were particularly responsive to their priorities. The regional industrial incentive was also extended both in its regional and sectoral applications. The result is that more projects and more communities became eligible for federal regional development assistance.

The federal government would again overhaul its approach to regional development in 1982. DREE was disbanded, a new central agency, the Ministry of State for Economic and Regional Development (MSERD), was created, and a new line department, the Department of Regional Industrial Expansion (DRIE) was also established. MSERD would look after federal-provincial agreements and DRIE, the federal-regional industrial incentive program. Underpinning the 1982 policy review was the belief that Canada's economic reality was being transformed. The 1981 budget speech declared Canada's regional economic balance was changing as a result of buoyancy in the West, optimism in the East, and unprecedented softness in key economic sectors in Central Canada. Underpinning this view were the economic prospects associated with resource-based megaprojects. In brief, Ottawa concluded that the Atlantic region would enjoy a decade of solid growth while Western Canada would capture over half of the investment in major projects. Ontario and Quebec would face serious problems of industrial adjustment because of growing international competition. The federal government decided to refocus its efforts to concentrate more and more on Ontario and Quebec.

The above led the first DRIE Minister to declare that «combating regional disparities is difficult even in good times. It is much more difficult in a period when Canada's traditional industries are suffering from soft markets and stiff international competition.» He argued that any new regional development program would have to be one that he could recommend to the business community and to the Canadian public. He declared that he had come up with such a program, one that he could recommend to every member of the House of Commons since «whatever riding any Member represents, his or her constituents will be eligible for assistance.»[10] The program would also be highly flexible since it could accommodate a variety of needs, including investment in infrastructure for industrial diversification, for the establishment of new plants, and for the launching of new product lines.

An important distinguishing characteristic of the new Industrial and Regional Development Program (IRDP) was the «development index.» The index was designed to establish the needs of individual regions, as far down as a single census district. All regions were arranged in four tiers of need. The first, for the most developed 50 per cent of the population, covered districts with a need for industrial restructuring. In this tier, financial assistance was available for up to 25 per cent of the cost of modernization and expansion. At the other end of the spectrum was the fourth tier, which included the five per cent of the population living in areas of greatest need (based on level of employment, personal income, and provincial fiscal capacity). In this tier, financial assistance was available for up to 70 per cent of the cost of establishing new plants.

It would not be long, however, before this approach would also come under heavy criticism. For example, MSERD was disbanded because it was argued that the federal government had become overly «bureaucratic.» Meanwhile, the four Atlantic premiers met with the Prime Minister and urged him to disband DRIE. Best, they argued to have nothing than DRIE since DRIE was increasing regional disparities rather than contributing to their alleviation. The resource megaprojects, they insisted, were still years away at least in Atlantic Canada and there was little reason to be optimistic about the future of the Atlantic's economy. The unprecedented softness in traditional industries in Central Canada was short lived. Yet, DRIE was continuing to focus on Ontario and Quebec. The four Atlantic premiers told the Prime Minister that over 70 per cent of DRIE's spending under its new regional program was going to Ontario and Quebec. By contrast, DRIE's predecessor DREE earmarked about 40 per cent of its budget to Atlantic Canada, even in its last years when its focus became much more national.

The federal government decided to disband DRIE in 1987. New regional development agencies were established first in Atlantic Canada — the Atlantic Canada Opportunities Agency (ACOA) shortly after in Western Canada — Western Development (WD), and then in Northern Ontario — Federal Economic Development Northern Ontario (FEDNOR).

ACOA was given $1.05 billion in new money over five years and part of the «A» base of DRIE and federal-provincial agreements, totalling nearly $1 billion over five years was also transferred to the new agency. WD, meanwhile, was given $1.2 billion of new money and, like its sister agency, the agency would assume responsibility for part of DRIE's A-base and existing federal-provincial agreements in Western Canada. FEDNOR was given $55 million over five years and two years later was given another $14 million in «top up» funds to meet new commitments. New funding was also subsequently made available to FEDNOR for a Resource and Technology Development Program.[11]

A new department — the Department of Industry, Science and Technology (DIST) was established and it would concentrate its efforts on southern Ontario and southern Quebec. The department quickly discarded the tier system and introduced a series of new measures designed to strengthen Canada's competitive trading position. The federal government also allocated about $1 billion (1988 and 1989) to regional development measures in the province of Quebec. The money was allocated to a federal-provincial agreement which, in turn, divided the province into two parts — the central regions and the peripheral or resource regions.

There have been some adjustments since the approach was introduced. DIST has been turned into a Department of Industry. Quebec now has its own federal economic development agency and important adjustments have been made on the spending side because of the program review exercise. That said, new money was subsequently added because of the infrastructure program. A Federal Office of Regional Development — Quebec (FORD-Q) was established in 1991 and it was later (1998) renamed Canada Economic Development for Quebec Regions. Still, the broad outline of the 1987 reforms in federal regional development policy remains clearly visible to this day. The one important difference is that the regional agencies now operate as part of the Department of Industry, a kind of regional operation operating within a large government department traditionally concerned mostly with the economic circumstances and opportunities of southern Ontario and Quebec.[12]

Looking back on federal regional development efforts, it is obvious that regional spending patterns have witnessed substantial changes over the years. When they were first introduced, there was no question that «need» was the guiding principle and that the objective was to alleviate regional disparities. Today, things are no longer as clear and we are far from Marchand's goal of spending 80 per cent of Ottawa's regional development budget east of Trois-Rivières. The 2001-02 expenditure estimates, for example, provide for the following funding to regional development agencies.

Table 2 - Federal Spending on Regional Development, 2001-02

	2001-02 Estimates
ACOA and Enterprise Cape Breton	390.4
CED-Q	357.3
WD	293.8
FEDNOR	95.3
Total	1,136.8

Source: Atlantic Canada Opportunities Agency, December 2002.

Identifying Seminal Moments

There have been several seminal developments in Canada's regional development efforts and the above reports on them. In brief, they include: The 1957 Royal Commission on Canada's Economic Prospects which urged a bold, comprehensive and coordinated approach to resolving the underlying economic problems of Atlantic Canada; the establishment of ARDA (1960) and the Atlantic Development Board (1963); the establishment of the Department of Regional Economic Expansion (1969); the introduction of the General Development Agreements (1973); and the establishment of regional development agencies (1988). Table 1 on page 5 provides a summary of important developments in Canada's regional development policy.

There have been other developments that are not directly identified with regional development policy, but which have had far reaching implications for regional development efforts. Ottawa's difficult fiscal position and the need to repair its balance sheet meant that the federal government had to introduce important cuts to its expenditure budget. Like the great majority of other federal government departments, regional development agencies saw their budgets substantially reduced during the program review exercise. In addition, cash grants designed to encourage private sector firms to locate new economic activities in slow-growth regions were abolished and new measures in the form of repayable assistance were introduced.

The rise of the neo-conservative school also had an impact on regional development policy throughout much of the Western world and Canada is no exception. The role of government in society came under attack. The Canadian Minister of Finance summed up the views of many inside and outside government in the mid-1990s when he observed: «Government has promised more than it could deliver and delivered more than it could afford.»[13]

There have been still other developments which are redefining the relationship various regions in Canada have with one another. Globalization, including trade patterns arising under the North American Free Trade Agreement (NAFTA) is one such force. The «National Policy» that was always at the core of every government's economic program in Canada for over a century until the mid-1980s, no longer resonates with Canadians and it is fast losing relevance. It is no exaggeration to suggest that this policy will soon belong to history books.

The national policy, as is well known, sought to create and strengthen east-west trade ties. It also became widely accepted that the policy largely favoured the economies of southern Ontario and Quebec and that its impact on the rest of the country was discriminatory. A series of transfer payments were introduced to compensate peripheral regions as Canada's industrial heartland was taking shape. As Serge Coulombe argued in a paper prepared for the Department of Industry, interregional transfer payments have never stemmed from «an interregional altruism intrinsic to Canadian culture.»[14]

As Ontario adjusts to the NAFTA and the requirements of global economy, it is hanging question marks alongside programs designed to maintain Canada's east-west links, whether in the form of transfer payments to individuals or of federal regional development programs. What is important for Ontario is putting in place measures to undercut Michigan's cost structure and introducing levers to promote Ontario's competitiveness with its major trading partners rather than securing east-west links. The same can be said about Atlantic Canada. There is evidence, both anecdotal and in emerging trade patterns, that parts of Atlantic Canada at least are increasingly looking to New England and the Eastern Seaboard of the United States to fuel future economic growth (see Tables 3 and 4). The two Tables make it clear that Atlantic Canada is rediscovering its trading partner to the south. One can only conclude that, as Canada's regions become inserted differently into the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. It only takes a moment's reflection to appreciate the potential impact on Canada's regional development efforts. On the one hand, the economic ties that link Canadian regions to one another will become weaker and, on the other hand, the global economy will enable regions to promote better their comparative advantages and also attract more investments.

Table 3 - Atlantic Canada, Top 5 Export Sectors by Various Destinations, 1992, 1995, 1998, 2001

1992			1995			1998			2001		
#	$'000	%	#	$'000	%	#	$'000	%	#	$'000	%
Total Exports											
322	2 060 599	29,96	322	3 282 902	28,77	322	2 784 342	22,80	324	4 595 283	25,79
311	1 296 416	18,85	324	1 664 239	14,59	311	2 084 635	17,07	322	3 027 178	16,99
324	962 422	13,99	311	1 657 845	14,53	324	1 588 896	13,01	311	2 751 782	15,44
212	626 085	9,10	212	1 104 418	9,68	212	1 182 737	9,69	211	1 430 905	8,03
326	506 393	7,36	326	779 400	6,83	326	836 485	6,85	321	1 220 320	6,85
Exports to the United States											
322	1 025 740	23,75	322	1 774 070	23,36	322	1 831 064	19,83	324	4 367 281	29,71
324	848 829	19,66	324	1 508 523	19,86	324	1 484 559	16,08	322	2 110 207	14,36
311	733 035	16,97	311	760 494	10,01	311	1 390 133	15,06	311	1 938 100	13,19
326	475 791	11,02	326	756 511	9,96	321	990 175	10,72	211	1 430 905	9,73
114	288 563	6,68	211	632 514	8,33	326	795 181	8,61	321	1 159 538	7,89
Exports to North-eastern United States											
324	704 595	22,99	322	1 066 129	21,39	311	1 173 492	20,65	324	2 929 208	30,73
322	700 602	22,86	324	965 112	19,36	322	1 064 233	18,73	311	1 547 545	16,24
311	646 726	21,10	311	653 883	13,12	324	894 376	15,74	211	1 281 336	13,44
114	280 754	9,16	211	581 016	11,65	321	612 705	10,78	322	1 113 813	11,69
321	142 483	4,65	114	355 734	7,14	114	377 360	6,64	321	780 418	8,19
Exports to Western Europe											
322	644 254	42,06	322	645 418	39,63	212	516 365	34,79	212	403 855	25,38
212	343 060	22,40	212	467 866	28,73	322	458 012	30,86	322	367 954	23,12
311	281 854	18,40	311	199 418	12,24	311	205 797	13,86	311	303 195	19,05
324	77 325	5,05	114	69 177	4,25	114	78 396	5,28	324	225 688	14,18
114	54 839	3,58	336	46 395	2,85	211	41 752	2,81	114	59 440	3,74
Exports to Japan											
311	178 721	50,25	311	487 550	61,52	311	251 247	57,68	311	224 793	59,24
322	122 537	34,45	322	216 121	27,27	322	111 928	25,69	322	73 143	19,27
114	21 638	6,08	212	48 665	6,14	212	38 780	8,90	212	31 521	8,31
212	21 361	6,01	114	36 627	4,62	114	23 001	5,28	114	20 535	5,41
326	8 174	2,30	339	682	0,09	326	3 986	0,92	321	18 478	4,87
Exports to Mexico											
322	24 622	35,79	324	13 288	47,71	331	4 293	44,09	322	34 321	49,00
331	23 586	34,28	331	4 262	35,29	212	2 143	22,01	326	22 290	31,83
212	18 992	27,61	212	1 496	5,37	311	1 910	19,62	311	6 654	9,50
311	551	0,80	311	1 333	4,79	325	931	9,56	212	1 905	2,72
313	314	0,46	322	986	3,54	313	173	1,78	114	1 582	2,26

Source: http://www.strategis.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

311: food manufacturing
312: beverage and tobacco product
322: paper manufacturing
324: petroleum and coal products manufacturing
326: plastics and rubber products manufacturing

Table 4 - Newfoundland and Labrador, Top 5 Export Sectors by Various Destinations, 1992, 1995, 1998, 2001

1992			1995			1998			2001		
#	$'000	%	#	$'000	%	#	$'000	%	#	$'000	%
Total Exports											
322	449 109	37,00	322	591 660	30,89	212	777 569	29,57	324	1 237 311	36,81
311	314 182	25,89	212	569 686	29,74	322	532 040	20,23	311	686 811	20,43
324	304 068	25,05	311	371 976	19,42	324	506 291	19,25	322	611 665	18,20
212	114 031	9,39	324	294 408	15,37	311	486 265	18,49	212	500 843	14,90
114	18 020	1,48	114	27 825	1,45	211	232 309	8,83	211	226 335	6,73
Exports to the United States											
324	255 351	42,21	324	293 213	31,39	324	498 047	29,17	324	1 011 033	46,21
311	197 313	32,61	212	269 004	28,80	322	314 652	18,43	311	454 530	20,77
322	124 938	20,65	322	231 508	24,79	212	299 249	17,53	322	346 649	15,84
114	16 301	2,69	311	102 943	11,02	311	288 590	16,90	211	226 335	10,34
212	4 267	0,71	114	26 830	2,87	211	232 309	13,61	212	85 724	3,92
Exports to North-eastern United States											
324	198 624	43,33	212	203 061	36,60	311	257 406	27,55	324	823 833	55,49
311	187 755	40,96	324	144 666	26,07	211	199 879	21,40	311	347 253	23,39
322	49 469	10,79	311	94 340	17,00	322	158 091	16,92	322	165 308	11.13
114	15 736	3,43	322	83 097	14,98	212	154 400	16,53	211	94 341	6,35
212	3 804	0,83	114	26 383	4,75	324	140 619	15,05	212	20 999	1,41
Exports to Western Europe											
322	176 552	44,62	212	230 898	47,10	212	336 806	61,21	212	283 900	35,83
212	101 897	25,75	322	160 261	32,69	322	118 379	21,51	324	225 569	28,47
311	72 620	18,35	311	61 412	12,53	311	71 564	13,00	322	156 035	19,69
324	41 468	10,48	332	15 811	3,23	324	8 245	1,50	311	99 604	12,57
333	1 153	0,29	333	10 799	2,20	336	5 726	1,04	333	17 825	2,25
Exports to Japan											
311	31 105	64,13	311	150 460	74,71	311	73 526	73,25	311	24 775	54,68
322	13 168	27,15	212	26 537	13,18	212	22 710	22,63	212	20 093	44,34
212	3 056	6,30	322	23 931	11,88	322	3 381	3,37	114	146	0,32
114	1 042	2,15	114	272	0,13	114	312	0,31	322	116	0,26
334	82	0,17	321	72	0,04	112	271	0,27	312	62	0,14
Exports to Mexico											
322	17 771	100,0	333	43	75,52	333	15	100,0	212	1 866	100,0
			311	14	24,48						

Source: http://www.strategis.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php#tag

114: fishing, hunting and trapping
212: mining (except oil and gas)

Needs Versus Opportunities Debate

The needs versus opportunities debate has been present in Canada's regional development efforts for the past 30 years. Initially, however, there was no debate — if only because there was a widely held consensus that regional development efforts should be tied to «needs.» No one, for example, challenged Jean Marchand, DREE's first Minister, when he declared that if the bulk of federal government spending (i.e., 80 per cent) for regional development was not spent east of Trois-Rivières, then Ottawa's regional development efforts would fail. But as we saw earlier in this report, by the 1970s the «needs» perspective was being challenged by the «opportunities» perspective. By the early 1980s, it had become very difficult to identify the «needs» perspective in Canadian regional development programming. The development index designed to guide regional development program spending spoke to this new reality.

The debate is still evident in certain quarters today. Slow-growth provinces and regions continue to advocate a «needs» perspective. They remain convinced that something went wrong in the 1970s and early 1980s and that there is now an urgent need to make things right. For their part, economically strong regions and their representatives insist that we need to focus on our strengths and on our capacity to compete in a highly competitive global economy.

We need not spend a great deal of time identifying regions that promote a «needs» perspective and those that promote an «opportunities» perspective. There has been some movement in alleviating regional disparities and in meeting the expectations of the advocates of the «needs» perspective, but it appears to the satisfaction of very few observers. The United States has been much more successful in promoting regional balance in its national economy.[15] To be sure, there are reasons for this and they are not related to government programs. As is well known, frontier development in Canada followed an almost straight line from east to west, reflecting a conscious decision to bind the country on a east-west track. In the United States, the whole vast subcontinent was eventually settled, industrialized, urbanized and modernized. The fact that the Mississippi runs north-south and the Great Lakes and the St. Lawrence system runs east-west contributed to this difference in the pattern of regional development. Canada has no equivalent of the great cities of Chicago, Kansas City, Dallas, Houston, New Orleans, Atlanta and Los Angeles. Each of them served effectively as a development pole, long before the term was invented by François Perroux. Regional policy in Canada has been cast in terms of provinces more than regional policy in the United States has been cast in terms of states. The fact that each state has two senators and that the Senate play an important policy and decision-making role has had an important impact in national policy making. The fact that the Canadian Senate has never been able to establish itself as a credible institution speaking to the interests of the regions is no less significant.

Still, some progress — albeit modest — has been made in alleviating regional disparities and one could point to federal government spending as one of the reasons. There are, however, still important differences among the regions when it comes to finding and keeping a job, the risk of losing a job, and duration of unemployment. These differences have also remained somewhat stable over time. Looking back over the past 40 years or so, one sees that unemployment rates and the time distribution of unemployment indicate that the probability of finding employment is much lower in Atlantic Canada than in Ontario or Alberta. In addition, history also reveals that when unemployment increases at the national level, the impact is different in the regions.

A 2.0 per cent increase in the Canadian unemployment rate has often translated in the past into an increase of over 3.5 per cent in Atlantic Canada, 1.3 per cent in Ontario, slightly less than 2.0 per cent in Western Canada and about 2.5 per cent in Quebec. Table 5 provides a provincial breakdown of Canada's unemployment rates from 1961 to 2000. Figure 1 provides a regional breakdown from 1987 to 2000, but on a yearly basis.

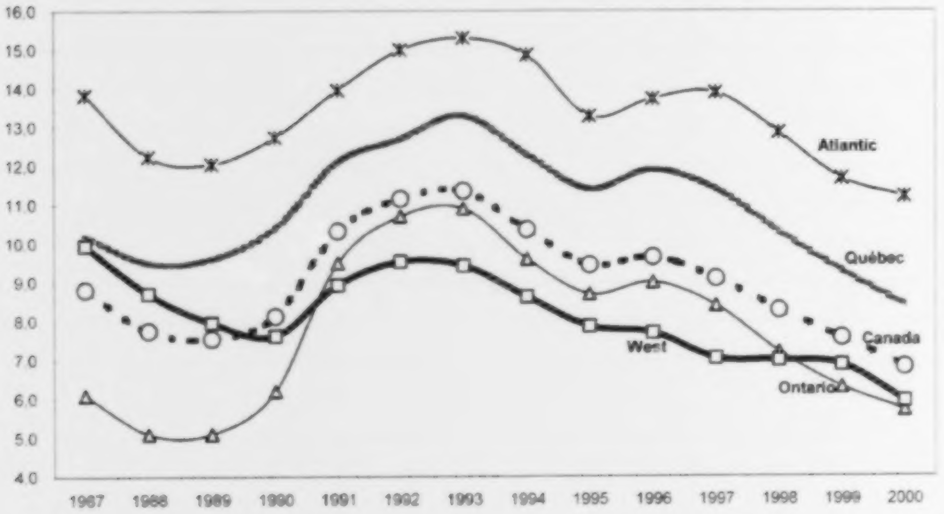
Table 5 - Provincial Unemployment Rates Relative to the National Average (per cent) (first year of decade, and most recent available year)

	1961	1971	1981	1991	2000
Newfoundland and Labrador	275	135	186	179	246
Prince Edward Island	--	--	150	163	176
Nova Scotia	114	113	134	117	134
New Brunswick	148	98	154	123	147
Quebec	130	118	137	116	124
Ontario	77	87	87	93	84
Manitoba	70	92	79	85	72
Saskatchewan	58	56	61	72	76
Alberta	66	92	50	80	74
British Columbia	120	116	88	96	106

Note: This Table indicates what each province's unemployment rate was in relation to the national average level for the specified years. For instance, if a province has a score of «175,» this would indicate that its unemployment rate was 1.75 times the rate of Canada as a whole.

Source: Donald J. Savoie, *Regional Economic Development*, 2nd ed. (Toronto: University of Toronto Press, 1992); updated with data from Statistics Canada, *Canada Year Book, 1994* (Ottawa: Statistics Canada, 1993), 617, and Statistics Canada, «Canadian Statistics: Labour force, employed and unemployed.» Web site: www.statcan.ca/...ish/Pgdb/People/Labour/labor07.a.ht.

Figure 1 - Unemployment Rate by Region, 1987-2000



Source: Statistics Canada

As is well known, published unemployment figures do not tell the whole story of a region's economic health or, for that matter, represent a reliable indicator of the desire to find work. A low participation rate in the work force can well indicate that some people have simply given up on finding a job. Conversely, a high participation rate speaks to the economic strengths of a region, to the employment opportunities it offers, and more generally to a region's economic vitality. Atlantic Canada's participation rates have consistently been lower than the Canadian average at least since the 1950s. Canada's participation rate has fluctuated between 62 and 66 per cent since 1977. Meanwhile, Atlantic Canada's participation, for example, has ranged in percentage terms from the mid-50s to the low-60s from 1977 to today.

Per Capita Income

Per capita income has also often been employed to establish the economic health of a region and data has been available on a regional basis since 1926. It is important to note, however, that per capita income data overstates regional disparities. For one thing, progressive income taxes take a larger share of the income of wealthier regions. Accordingly, regional disparities in disposable income are not as great as differences in personal income. In addition, per capita income overlooks the fact that the cost of living differs from region to region. Table 6 charts the progress made since 1987 to 1997 from a regional perspective. The Table reveals that Newfoundland and Labrador has consistently trailed the national average. However, it is important to note that the province has made some progress between 1987 and 1997.

Table 6 - Personal Income Per Capita, by Province and Territories, Selected Years 1961-97: Relationship to National Average (Canada = 100)

	1987	1992	1996	1997
Canada	100.0	100.0	10.0	100.0
Newfoundland and Labrador	70.7	74.2	76.1	75.3
Prince Edward Island	72.5	81.2	83.6	81.5
Nova Scotia	83.4	86.2	84.2	84.3
New Brunswick	77.4	81.7	83.9	84.4
Quebec	94.8	91.8	92.2	92.5
Ontario	111.8	110.1	107.5	107.6
Manitoba	88.8	90.8	94.0	93.3
Saskatchewan	83.4	81.4	90.0	85.2
Alberta	101.8	102.1	103.9	105.0
British Columbia	99.6	104.1	105.0	104.3
Yukon Territories	102.5	116.9	122.6	121.4
Northwest Territories	87.3	97.8	104.6	105.0

Source: Statistics Canada, *National Income and Expenditure Accounts*, Catalogue 13-201.

Most economists insist that earned income per capita is a much better indicator of a region's economic health than per capita income. Earned income per capita excludes relative gains from interregional transfer payments. According to this measurement, regional disparities or regional economic needs are somewhat more pronounced but, again, Newfoundland and Labrador has consistently trailed the national average.

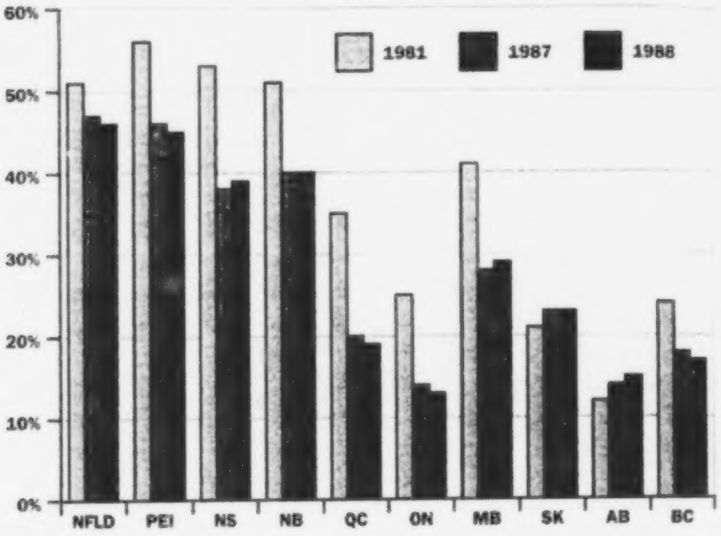
Table 7 - Earned Per Capita Income, 1987-1997

	1987	1992	1996	1997
Canada	100.0	100.0	100.0	100.0
Newfoundland and Labrador	65.4	68.2	70.0	68.9
Prince Edward Island	64.4	68.9	71.6	66.9
Nova Scotia	81.0	82.3	78.5	78.3
New Brunswick	74.3	79.4	81.5	81.8
Quebec	93.8	91.7	91.5	91.3
Ontario	115.3	110.8	108.3	108.4
Manitoba	86.7	87.0	89.2	88.8
Saskatchewan	72.0	74.2	78.3	79.1
Alberta	101.2	105.9	109.8	111.7
British Columbia	96.0	104.6	106.5	105.1
Yukon Territories	114.8	127.8	130.5	129.0
Northwest Territories	103.6	116.8	120.5	119.4

Source: Statistics Canada

Though slow-growth regions have became less dependent on federal transfer payments in recent years, they remain, relatively-speaking, highly dependent on federal payments to support their expenditure budget. A dependence on federal government departments, beyond the national average, reveals that the provincial economy is not sufficiently strong to support the level of services the Provincial Government is providing to its citizens. Figure 2 below reports on federal transfers as a percentage of provincial revenues from 1981 to 1997. Newfoundland and Labrador relies on federal transfer payments to a greater degree than the other provinces.

Figure 2 - Federal Transfers as a Percentage of Provincial Revenues 1981, 1987, 1997



Source: Department of Finance Canada, *Fiscal Reference Tables*, 2000.

Individuals, no less than provincial governments, can become dependent on transfer payments and many have. Individuals in slow-growth provinces have reinforced their region's cycle of dependency by relying on such federal government programs as the unemployment/ employment insurance program far more than the Canadian average. Table 8 provides a provincial breakdown over a 10-year period. Here, we see that with the exception of Prince Edward Island, residents of Newfoundland and Labrador relied on Employment Insurance benefits to a greater degree than residents of the other provinces.

Table 8 - Unemployment Insurance/Employment Insurance Benefits Per Capita, Dollars

	1987	1992	1995	1996	1997
Canada	391	654	430	407	347
Newfoundland and Labrador	1,121	1,825	1,114	1,121	1,052
Prince Edward Island	946	1,603	1,218	1,153	1,155
Nova Scotia	552	897	661	615	551
New Brunswick	766	1,148	920	861	754
Quebec	458	792	554	523	446
Ontario	245	528	314	301	259
Manitoba	299	439	303	293	235
Saskatchewan	275	391	261	252	192
Alberta	387	499	336	295	212
British Columbia	476	611	397	377	328
Yukon Territory	769	967	806	750	776
Northwest Territories	357	571	433	478	600

Source: Statistics Canada, *Provincial Economic Accounts*, cat. 13-213.

All of the above make the case that Newfoundland and Labrador remains the province most in «need» of federal economic help to promote development. Indeed, if the federal government were still to be guided by the goal of alleviating regional economic disparities in its allocations for regional development funding, then it would still have to tilt its expenditure budget more towards Newfoundland and Labrador, the other three Atlantic provinces and Quebec, east of Trois-Rivières.

Still, it is important to stress once again that some progress has been made on the regional disparities front, a fact that is all too often overlooked. Provincial governments are less dependent on federal funding today than they were 20 years ago. The same can also be said about residents of have-less provinces as Table 8 makes clear. We have also witnessed gains on the part of some have-less regions and provinces in terms of per capita income and earned per capita income. There are urban areas in traditionally slow-growth regions that are showing impressive signs of economic vitality (e.g., St. John's, Halifax, and Moncton). This may suggest that past federal government efforts in alleviating regional disparities, particularly those that had both a clear geographical focus and a clear program purpose, notably the growth centre concept, may well have had a more positive impact than it is generally assumed.

It is, however, impossible to establish a direct link to federal regional development spending because many factors ranging from interest rates and the health of the American economy can influence the pace of regional economic growth. We do know that some evaluations of past federal regional development efforts have been positive, others uncertain about their impact, and still others have been negative.

Observers insist that a comprehensive evaluation of the various federal regional development measures is impossible. DREE, ACOA, FEDNOR, and WD expenditures have not been large enough for us to be able to assess their impact in relation to other economic forces, such as interest rates, the value of the Canadian dollar, and even other federal expenditures, such as transfer payments to provincial governments and individuals.

There is another major stumbling-block in evaluating the efforts of various regional development efforts. The various departments and agencies have not always been very clear about their objectives. They have also often changed their policy framework. At one point, the growth-pole concept held sway. Then DREE sought to tie its efforts to a development-opportunities concept. This in turn was followed by an attempt to assess initiatives in terms of their relevance to a region's natural economic strengths. Toward the end of the department's life, senior DREE officials frequently spoke about local or community development concepts. ACOA talked about promoting entrepreneurship and WD about diversifying the western economy. Today, innovation is in fashion everywhere. Even when a particular approach is in vogue, it seems that it does not prevent the department from sponsoring a variety of initiatives that do not readily fit in with that theory.

With the introduction of the General Development Agreements (GDAs), and subsequently the Economic and Regional Development Agreements (ERDAs) and the Cooperation Agreements (in the case of Atlantic Canada) came an all-embracing and unexceptionable theoretical framework, essentially non-selective and hardly a guide for action. The department essentially had 10 policies — one for each province. Viewed from the regions, DREE, DRIE, ACOA and WD funds represented a «B» budget fund for provincial governments, from which they would seek funding for new economic development. Provincial governments came forward with proposals and, if these prove unacceptable, they simply come back with a new set.

The goals and objectives of federal-provincial agreements were extremely broad and of little benefit even as a checklist against which to assess proposed projects. The Newfoundland and Labrador GDA, for example, enabled DREE to support an extremely wide variety of measures. Within months of its signing, the GDA provided funding for such diverse measures as highway construction, the development of Gros Morne, urban development, inshore fisheries, mineral development and planning. It is important to note that in the early years the federal government agreed to cost share 90 per cent of subsidiary agreements under the Newfoundland and Labrador GDA. This compared with 80 per cent for New Brunswick and Nova Scotia, 60 percent for Quebec, Manitoba and Saskatchewan and 50 per cent for the remaining provinces.

New policies were introduced for a number of reasons, not simply because existing ones were no longer effective. In fact, federal-provincial competition appears to have been largely responsible for at least two of the three major policy reviews. In 1973, the federal government sought to establish closer links with provincial governments by introducing the GDAs. By 1981, Ottawa concluded that it was not getting the credit to which it was entitled and decided to scrap these agreements. New agreements provided for the federal government to directly deliver some of the initiatives. Since the principal motive behind the two last policy reviews was federal-provincial tension and visibility, it may well be more appropriate to assess them from this perspective rather than from one of regional development. Certainly, the 1973 policy review placed the provinces in a favoured position in shaping new regional development initiatives. The 1982 review appears to have made it much more difficult for provinces to do so. The establishment of ACOA, WD and DIST, meanwhile, appears to have resulted from an urgent desire to deal with a crisis of confidence in DRIE, with strong pressure from the Atlantic region and the West to deal with their economies, which were not rebounding from the recession of the early 1980s, and with a strongly held desire to chart a new course in regional development different from that followed by the Trudeau government. Today, it seems there is no appetite left in Ottawa for funding federal-provincial agreements to support regional economic development. Federal politicians have consistently complained of late that they operate at a disadvantage with their provincial counterparts in securing visibility. As a result, regional development, in particular federal-provincial agreements, no longer enjoys the priority status it once did.

But there are other reasons. Globalization, scarce public funds, and changing economic relations between Canada's regions are redefining Canada's economic circumstances. Added to the above is the fact that one can hardly make the case that federal regional development programs have contributed to national unity. One observer of Canadian political economy observed that «the political culture of Canada may be defined as a profound sense of regional grievance married to a discourse of entitlement .... Sixty-four per cent of Canadians feel their province gets back less in federal spending than the taxes sent to Ottawa. Nearly three quarters of Canadians feel that the federal government favours one region of Canada over the others, and very few feel that their region is the one favoured.»[16] Federal regional development spending may well have, if anything, fuelled regional tensions.

Federal regional development programs have, for the most part, been federal-provincial in design and federal-provincial agreements have at least in the past been the instrument of choice to deliver federal regional development measures. Provincial governments could always easily determine who was getting what, how much and what share of Ottawa's regional department budget they could secure compared to other provinces. This, and federal transfer payments, have given rise to a «fair share federalism» debate where the «have» provinces insist that they have been short changed, particularly in recent years. We have now reached the point where representatives of southern Ontario are making the case that the federal government should establish a regional development agency, like ACOA, for their region. Such a request would have been unthinkable in the 1960s and 1970s. Slow growth regions and provinces, meanwhile, look to past spending patterns to make the case that the federal government is less committed today to regional development objectives, as traditionally defined, than it was 20 or 30 years ago.

It is not too much of an exaggeration to suggest that the federal government has lost its way in the regional development field. It is no longer clear what it wishes to accomplish — it has not resolved the needs versus the opportunities debate and it has not of late been able to establish regional development as something different than a transfer of federal funds in support of provincial government initiatives. Regional development policy now has a serious credibility problem both in the national press and in Ottawa. The federal Industry Department can support an initiative in Montreal, Kanata or Toronto and the press hardly takes note. The same does not always apply in the case of ACOA and Atlantic Canada. There is an assumption that national economic development efforts work but that regional ones do not. Regional ones are also regarded as being politically motivated.

In any event, every region, strong or weak, has had its hand in the federal regional development pot. However ridiculous it may appear to some, we have reached the point where federal regional development programs in Atlantic Canada can no longer compete with similar federal government programs in other provinces, notably Ontario and Quebec.[17] Yet, the public perception remains that slow-growth regions are the ones that benefit from federal-regional development efforts.

Key Issues

There are several important issues either at play or emerging that we need to consider. First, the fiscal capacity of provincial governments remains important. This is important because it speaks to the ability of some provincial governments to deliver an acceptable level of public services in such important sectors as education, health care and social services. However, as we know, Canada decided some 40 years ago to deal with this problem through an «equalization program» which was later enshrined in the Constitution. Still, the federal government needs to monitor this situation carefully, at least from an economic development perspective. Have provinces have the fiscal capacity, not only to provide a high level of public services, but also to go at it alone and launch new measures to promote economic development. Slow-growth provinces do not have anywhere near the resources to go head to head and compete with the have provinces to launch new economic development measures. Unless some coherence in provincial fiscal capacity is maintained, the have provinces could well play havoc with national efforts to promote economic development.

There is a view increasingly being heard in Ottawa that Canada's regional development problem needs to be recast into a urban/rural problem. The argument being made is that rural areas trail urban areas employing virtually any economic development indicator.

It is no coincidence that traditional have-less regions are more rural in character than the have regions. Ontario has the most mature urban structure of any region in Canada. Cities such as Ottawa, Hamilton, London, Windsor, St. Catharines, and Kitchener-Waterloo provide an urbanized and highly developed hinterland to support the position of Toronto. The dramatic rise of Alberta's energy-based economy in the late 1970s, coupled with the emergence of Vancouver, Calgary, and Edmonton as important corporate and financial centres, has spurred a «second Canadian economic heartland.» But the 700-mile corridor stretching from Windsor to Quebec City has not lost its economic importance and still accounts for about 70 per cent of Canada's manufacturing employment. The region is also home to most corporate headquarters in the country. Quebec's urban structure is weaker, mainly because Montreal has only Quebec City as an important urban centre from which to draw support.

What then are the challenges confronting rural Canada? There are several, but one of the most important is the loss of population, particularly the younger and more dynamic element. From 1991 to 1996 only rural Alberta and British Columbia saw an increase in its population age 20 to 24. During the same period, rural areas in all provinces registered a loss in the age 15 to 19 population. Many of the service functions in a modern economy, notably financial administration, research and development (R & D) and headquarters' activities take place in cities. In addition, many service functions are now among the fastest-growing sectors of the economy. Universities, notably the more research-oriented universities which have come to play such an important role in the new economy, are all located in relatively large urban centres.

Other socio-economic indicators reporting on the economic health of rural Canada are no more encouraging. Unemployment rates are higher in rural Canada. Earned income is considerably lower in rural Canada, employment is concentrated in slow-growth sectors (e.g., the resource sector), and education levels trail those found in urban regions. Businesses also tend to be smaller in rural areas. This in turn may well explain why new technologies are not adapted as quickly as they are in urban areas.[18]

As already noted, socio-economic indicators reveal that rural Canada is confronting major economic development challenges. Rural regions, for example, have a larger proportion of adults with low literacy skills. Education and training activities are also lower in rural Canada, there is a large urban-rural gap in the use of internet and overall computer in favour of urban areas, rural firms are smaller and less concentrated in innovative industries than urban ones, Canada's rural population is growing, but much more slowly than the urban population and almost 70 per cent of new jobs created since 1992 have been in urban areas.[19] We could add to this list.

We also know that the information economy has not lived up to expectations in at least one aspect. Thirty years ago, development economists predicted that technological advancements would reduce the need for travel and that distance to markets would lose some of its relevance in decisions on where to locate new economic activities. We now know that the information revolution has not significantly reduced either the costs or the need for travel. Goods still need to be transported to markets and manufacturers in peripheral regions still have to deal with additional costs in bringing their products to major markets.[20] As is well known, transportation costs are subject to economies of scale and for this reason alone, firms in peripheral regions face higher costs.

Knowledge-intensive industries have and will continue to locate the bulk of their new activities in urban centres. The need for knowledge workers is paramount and knowledge workers prefer working in large communities. They want access to cultural events, research centres, training facilities, laboratories and the like.

If, as it appears, peripheral communities are not able to become full participants in the new economy, then they must rely on traditional sectors for future growth. We have already seen, however, that traditional sectors offer limited employment opportunities. A recent study on the knowledge economy maintains that «employment decline in resource industries is the result of the meeting of two curves — declining manpower needs per unit extracted and constant or declining resources or demand for resources.»[21] There is no need to go over once again the crisis confronting the fishery sector in Newfoundland and Labrador. Things are no better in the agricultural sector. Statistics Canada recently tabled a report which reveals that nearly 30,000 farms went out of business across Canada between 1996 and 2001. All provinces saw the number of farms decline with Atlantic provinces registering some of the sharpest decline. Newfoundland and Labrador lost 99 farms between 1996 and 2001.

Table 9 - Where the Farms Are

	2001	1996	Absolute Change	Per cent Change
Canada	246,923	276,548	-29,625	-10.7 %
Newfoundland and Labrador	643	742	-99	-13.3 %
Prince Edward Island	1,845	2,217	-372	-16.8 %
Nova Scotia	3,923	4,453	-530	-11.9 %
New Brunswick	3,034	3,405	-371	-10.9 %
Quebec	32,139	35,991	-3,852	-10.7 %
Ontario	59,728	67,520	-7,792	-11.5 %
Manitoba	21,071	24,383	-3,312	-13.6 %
Saskatchewan	50,598	56,995	-6,397	-11.2 %
Alberta	53,652	59,007	-5,355	-9.1 %
British Columbia	20,290	21,835	-1,545	-7.15 %

Source: Statistics Canada, Globeandmail.com census page.

Redefining Canada's regional development problem into an urban/rural one holds important advantages for the federal government. For one thing, rural Canada is confronting important economic challenges which require attention. For another, all provinces would benefit from such a definition because they all can point to rural areas experiencing economic difficulties. For yet another, an urban/rural perspective does not promote regional tensions, at least when viewed from an Ottawa perspective. Still, Ontario, followed by Quebec, has the smallest share of people living in predominantly rural areas. As you will see in Table 10, in Newfoundland and Labrador, the rural population is the majority.

Table 10 - Population by Type of Region, Newfoundland and Labrador 1981-2001

	1981	1986	1991	1996	2001
Newfoundland and Labrador	563,755	564,005	563,945	547,165	512,930
Intermediate regions	236,470	243,185	250,280	248,785	242,875
All predominantly rural regions	327,285	320,820	313,665	298,380	270,055
Rural non-metro adjacent regions	270,320	266,270	258,470	246,550	222,100
Rural northern regions	56,965	54,550	55,195	51,830	47,955

Source: Agriculture and Agri-food Canada Publication Number 2138/E.

An urban/rural perspective would leave an important issue unattended. History has told us time and again that national programs are not sufficiently regionally sensitive to deal with regional circumstances. For example, one of the main challenges in southern Ontario is to find qualified personnel to work in the new economy. The same is less true in St. John's. In addition, St. John's is located in a province that does not have the kind of mature urban structure and investment climate (e.g., the number of large firms) that Ontario has. National programs to promote innovation and research and development very often overlook the fact that Newfoundland and Labrador's private sector does not have the depth (e.g., size) and resources that Ontario's private sector has.

There is an urgent need to review the application of national programs from a regional perspective. Such a development would bring greater coherence to national programs to promote economic development. It would also deal head-on with a problem that has inhibited regional development efforts from the very beginning: understanding the effect of national departmental policies and programs on specific regions. Instead of dealing with this issue head-on, we have introduced a veritable alphabet soup of regional development programs and agencies since the 1960s. Looking back, one can assume that Canada's regions would have been better off if national programs had been adjusted to incorporate the regional dimension.

The inability of the federal government to incorporate a regional perspective has been a costly failure to Newfoundland and Labrador and to other Atlantic and Western provinces. Things «national» in Canada invariably refer to the economic interests of Ontario and Quebec, while things regional refer to the economic interests of Western and Atlantic Canada. I was struck, as probably many in Newfoundland and Labrador were by the reactions in the media, when John Manley was moved out of the Industry portfolio. Edward Greenspon praised Manley in *The Globe and Mail* for his ability to think «national» and pointedly asked whether his replacement, Brian Tobin, will «be an Atlantic Minister or a national Minister?»[22] A few days later Campbell Morrison, a columnist, wrote in the Moncton *Times and Transcript* that «If Brian Tobin succeeds at nothing else, at least he has dislodged John Manley from the key Industry portfolio .... [Manley's] primary concern has been the high-tech sector, which by happy coincidence is based largely in Ottawa, and the aerospace sector in Montreal and Toronto.»[23] Manley also practiced the art of *deux poids, deux mesures*. Witness, for example, his failed efforts to come to the rescue of the Ottawa Senators with federal funding. Surely, one would be hard pressed to make the case that a hockey team is part of the new economy while the shipbuilding industry is not.

What the above suggests is that the economic interests of Ontario are invariably considered to be national in scope, but the economic interests of Newfoundland and Labrador, or for that matter, all of Atlantic Canada are merely regional in scope. Senior policy makers in Ottawa and national columnists simply do not get it even if you explained it to them that for Western and Atlantic Canadians, Ontario and Quebec are also regions and that for them an Ontario Minister can be no less (and probably more) parochial than any Atlantic or Western minister. Why should they? Canada's political culture and its historical development have been shaped by a House of Commons and by an executive invariably dominated by central Canada with no voice able to speak to other concerns with political authority.

In recent months, some observers, including Scott Brison, a member of Parliament from Nova Scotia, have suggested that the federal government should abolish ACOA and apply the savings to abolish federal corporate income tax in Atlantic Canada. That, they insist, would promote self-sustaining economic development. What ACOA does in Atlantic Canada is basically what the Department of Industry does in Ontario and Quebec. The difference is that the Industry Department has a much greater staff and a bigger expenditure budget. Yet, I have heard no one suggest that we should abolish the Industry Department and lower the national level corporate income tax: again, *deux poids, deux mesures*. Why would it make economic sense to abolish ACOA but leave the Department of Industry intact?

Ottawa has been looking at the wrong end of the problem, as its never-ending parade of new regional agencies and program acronyms would suggest. Every time a new ARDA, FRED, DREE, MSERD or ACOA is introduced, the Prime Minister of the day will invariably explain that it will succeed where all the previous schemes have failed. But these changes are never the solution. Promoting regional interests is not a matter of the machinery of government or of administration: it is a political matter to be resolved at the political level. Yet, «this» and «that» have been tried with the machinery of government and the public service, all while the workings of our political institutions have been ignored.

The fact that the federal public service is still organized along functional or sectoral lines, with line departments pursuing specific sectoral objectives, not regional ones, is a political matter, not an administrative one. The fact that the great majority of senior public service positions and virtually all officials occupying them are located in Ottawa, not the regions, is a political decision, not an administrative one. The fact that no sustained effort has ever been made to document and understand the effect of departmental policies and programs on specific regions is a political failure, not an administrative one. This, despite firm commitments made by Prime Ministers Trudeau and Mulroney that such investigations would be done. And the fact that Ottawa has abandoned its policy of decentralizing federal government jobs from Ottawa to slow-growth regions was a political decision, not an administrative one. This, despite firm commitments made by Prime Minister Chrétien in St. John's, Newfoundland, while he was a candidate for the leadership of the Liberal party, to relaunch the program if elected to power.

The economic interests of Ontario and Quebec have been particularly well articulated within the federal government because of the nature of our national political institutions. The two provinces hold effective power because they hold the great majority of seats and no political party can aspire to power without support from one or both of these provinces. Canadian Prime Ministers have, for the most part, come from either Ontario or Quebec ever since Canada was born. In addition, since the 1970s, they have, for a host of reasons, «governed from the centre.»[24] That is, political power in Ottawa has been increasingly concentrated in the hands of the Prime Minister and a few advisors. The federal Cabinet, according to a member of the Chrétien Cabinet, "is no longer a decision-making body: it is a focus group for the Prime Minister."[25] But in their attempts to "focus on" and "manage" major political developments, they have made matters worse, at least on the regional front. That is, concentrating effective political power in the hands of a few people has greatly inhibited still further the ability of national political institutions to understand regional forces, let alone accommodate them in policy and decision making.

Canadian Prime Ministers live in Ottawa and their principal policy advisors have, for the most part, been born, educated and spent much of their working lives in either Ontario or Quebec. With very rare exceptions, clerks of the Privy Council Office, secretaries to the Cabinet, the heads of the federal public service and the Prime Minister's main advisors have been from either Ontario or Quebec ever since Arnold Heeney expanded the scope of the position during the Second World War. This combined with the fact that the Senate is for the most part of no political consequence, other than serving the Prime Minister as a rich source of partisan political appointments, enables the Prime Minister to concentrate on the vote-rich provinces of Ontario and Quebec which dominate the House of Commons and from which he draws his power and his chances of re-election.

In some ways, Ottawa's actual regional development policy has been remarkably successful over the years. The federal government's national economic policy has consistently been geared to the economic interests of Ontario and Quebec. In this sense, it has worked well. Southern Ontario and, albeit to a lesser extent, southern Quebec, are two of the world's economic hot spots. Surely, the most ardent neo-conservative will recognize that public policy measures, including many defined in Ottawa since the implementation of the National Policy and continuing to this day, have been vitally important to the economic development of southern Ontario and Quebec.

It is all the more surprising why politicians from Atlantic Canada — and excluding a few exceptions — from Newfoundland and Labrador have consistently supported a strong central government. But a strong central government has *never* been in the economic interest of Newfoundland and Labrador. To be sure, federal transfer payments of one kind or another have enabled the Provincial Government to provide a high level of public service, but this came with a price — economic dependency. At the same time, it allowed Ottawa to concentrate its real economic development efforts on vote-rich Ontario and southern Quebec. And now that the modern economic infrastructure has been put in place and that globalization, with all its implications, has arrived, Ontario is much less inclined to continue its implicit part of the bargain: support transfer payments to individuals and provincial governments in slow-growth regions.

What the above suggests, however, is that Newfoundland and Labrador should tell Canada and the national government that either we reform our national political and administrative institutions to reflect the true nature of Canada and accommodate the economic interests of the smaller provinces or, failing that, Newfoundland and Labrador can no longer support a strong role for the federal government. The choice is clear: reform national political and administrative institutions so that smaller provinces can influence national policies and programs as is the case in other federations or the Government of Newfoundland and Labrador should join forces with other provinces like Alberta to push for a decentralization of responsibilities from the federal government to the provinces.

Newfoundland and Labrador could join forces with other Western and Atlantic provinces to push for a triple e-Senate. Indeed, Canada is rare among federations in that it does not have a second house to promote a regional perspective in national policy making. Australia, for example, now has an elected Senate and it has been successful in promoting regional interests within the national government. The cost of not having such a house in Canada has, over the years, cost smaller provinces a great deal, particularly in the economic development field. In addition, much of the federal government's policy-making advisory function is concentrated in Ottawa. There is no reason why Ottawa could not decentralize at least part of this function and re-launch its decentralization program which met with considerable success in the late 1970s and early 1980s.

The choice for Newfoundland and Labrador is clear — movement on the above or the province should, as already suggested, push for a decentralization of responsibilities from the federal government to the provinces. To be sure, this option is not without risk.

The risk for Newfoundland and Labrador is clear — the province still depends on federal transfers to sustain part of its socio-economic infrastructure and the provision of government services. A weaker central government would mean a weaker capacity on the part of Ottawa to provide transfer payments to slow-growth provinces. The risk is worth taking for two reasons: first, because transfer payments are no longer in vogue in Ottawa and they are now transferred reluctantly and accompanied with a message saying that they are not in the economic interest of the recipient province and, second, because history reveals that transfer payments do not contribute to self-sustaining economic development or to a sense of economic accomplishment among either individuals or society. Newfoundland and Labrador needs to break the cycle of dependency and, to be sure, this is not without risk. But the status quo is hardly a solution. In any event, there is considerable evidence to suggest that Ottawa is slowly but surely closing the transfer payment tap. The federal government can help by ensuring for the first time since Confederation that its policies and programs can accommodate regional economic circumstances other than those from Ontario and Quebec. But this is unlikely unless national political and administrative institutions are reformed.

Endnotes

[1] See, for example, Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1992) and Canada, *Living Together: A Study of Regional Disparities* (Ottawa: Economic Council of Canada, 1977).

[2] Ralph Matthews, "The Smallwood Legacy: The Development of Underdevelopment in Newfoundland 1949-1972," *Journal of Canadian Studies*, 3(4), (Winter 1978-79), p. 95.

[3] Joseph R. Smallwood, "To You with Affection form Joey," St. John's, Newfoundland, 1969.

[4] Matthews, "The Smallwood Legacy," p. 94.

[5] See, among others, Anthony Careless, *Initiative and Response: The Adaptation of Canadian Federalism to Regional Economic Development* (Montreal: McGill-Queen's University Press, 1977), chapter 3.

[6] See, among others, *Canadian Policies for Rural Adjustment*, Special Study No. 7 of the Economic Council of Canada (Ottawa: Queen's Printer, 1967).

[7] Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 1992), p. 32.

[8] Economic Council of Canada, *Living Together: A Study of Regional Disparities* (Ottawa: Minister of Supply and Services, 1977).

[9] Savoie, *Regional Economic Development*, p. 37.

[10] Quoted in Savoie, *Regional Economic Development*, p. 95.

[11] See, among others, Canada, *Federal Regional Development Policy in Perspective* (Moncton: Atlantic Canada Opportunities Agency, 1990).

[12] For a review of federal regional economic efforts during the past 10 years, see Donald J. Savoie, *Rethinking Canada's Regional Development Policy: An Atlantic Perspective* (Moncton: The Canadian Institute for Research on Regional Development, 1997).

[13] Quoted in Donald J. Savoie, *Governing from the Centre: The Concentration of Power in Canadian Politics* (Toronto: University of Toronto Press, 1999), p. 202.

[14] Serge Coulombe, *Vision Paper: Regional Questions* (Ottawa: Department of Industry, August 1996), p. 43.

[15] See, for example, Niles Hansen, Benjamin Higgins and Donald J. Savoie, *Regional Policy in a Changing World* (New York: Plenum Press, 1990), chapters 2 and 5.

[16] Richard French, "The Future of Federal-Provincial Relations," paper presented to IPAC, National Capital Region, June 1990, p. 2.

[17] See, for example, Donald J. Savoie, *ACOA: Transition to Maturity* (Moncton: Canadian Institute for Research on Regional Development, 1990), p. 47

[18] See *Les régions rurales du Canada dans l'économie du savoir* (Ottawa: Department of Industry, undated).

[19] Based on a presentation by Industry Canada on *Rural Canada in the Knowledge-Based Economy*, undated.

[20] *The Periphery in the Knowledge Economy* (Montreal and Moncton: INRS and CIRRD, 2002), p. 35.

[21] Ibid., p. 5.

[22] "Eastern Canada's new boss of bosses," *The Globe and Mail*, 17 October 2000, p. A19.

[23] Quoted in Campbell Morrison, *Times and Transcript*, Moncton, 25 October 2000.

[24] Savoie, *Governing from the Centre*.

[25] Quoted in ibid., p. 240.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Regional and Rural Development Strategies in Canada: The Search For Solutions

— Raymond B. Blake

May 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 231
Economic and Social Trends in Rural Newfoundland 233
Brief History of Rural Development in Canada 235
Recent Development Policy Approaches in Newfoundland 243
Going Forward 250
Conclusion 254
Recommendations 255

Endnotes 257

Introduction

The problem of rural and regional disparity in Canada has been a stubborn and persistent one. Since the Second World War, both the federal and provincial governments have struggled with how best to solve the disparity that exists between rural and urban areas as well as that between the various regions of the nation. Since the 1930s, the federal government has recognized the economic and social imbalances within the federation, and has implemented a series of fiscal transfers to ameliorate these differences, though until the late 1950s the problem was never recognized as one of systemic underdevelopment in rural Canada. The first equalization payments from the national government to the provinces were designed to share the wealth of the nation, and only recently have governments come to realize that parts of Canada face serious problems that have contributed to their poor economic performance and lower levels of income. Once this fact became accepted, the search for solutions was on – a search that has continued for more than half a century without any solution being found.

Two observations can be made about the analysis that follows. First, it is clear that there has been a 'herd mentality' in the strategies adopted to foster regional and rural development.[1] Most of the provinces have followed models adopted elsewhere or have simply accepted federal money for rural and regional development without being proactive, creative or courageous to the particular and peculiar challenges and opportunities in their own region or province. The first rural and regional development strategies focussed on increasing productivity in farming and fishing in an attempt to raise incomes and, hence, living standards in such areas. By the mid-1960s, the focus had shifted to encouraging the urban-industrial and manufacturing model in underdeveloped areas. More recently, the emphasis has shifted yet again to the development of local capacity through the 'training' of leaders and improving the social capital to enhance the social capacity of a region so that it can find its own solutions to its own problems. Rural development specialists and policy-makers are now all talking about 'prosperity of place'. We have entered into a era where the rhetoric, at least, argues that communities and local regions know what they want and have their own vision for the future, and it is up to the state to listen, to accept, and to support. This approach, its supporters maintain, will bring the prosperity that has been slipping away from rural Canada for more than half a century. Yet, one must recognize that this approach is just the latest in a long series of strategies to solve the problem of rural Canada, and even this approach – empowering rural citizens to solve their own problems – is being driven by governments and others who reside outside the rural areas.

Second, the development strategies have been largely unsuccessful at creating long-term economic growth and prosperity in rural Canada and throughout the more remote and sparsely populated regions of the country. One can make the case that most of the attempts at rural development and rural revitalization in Canada have been an unmitigated disaster if we were to apply a business model to the various initiatives. For all of the billions of dollars spent on solving the problems of rural Canada over the past 50 years, we have few success stories to tell when it comes to the creation of sustainable economic development. This does not mean, however, that there have been no social benefits from the vast quantities of government expenditures on roads, water and sewer projects and a variety of social services. There clearly have been improvements in services for citizens, and, moreover, the expenditures on various rural and regional development strategies have helped to sustain many rural areas. Without government spending, rural Canada would be in much worse shape than it is.[2]

Given the lack of economic success with Canada's regional and rural development strategies in the postwar period, one is prompted to ask if the various programs designed to develop certain areas of the country are about more than economic development. This paper argues yes, they are. The various government programs discussed below have more to do with Canadian identity, Canadians' sense of nation and, more recently, with what we are increasingly calling 'social inclusion' than with economic development. In Canada, the sense of nation and identity have been expressed in terms of values such as generosity, in our social programs, and other government activities. The recent debate in Canada on the apparent crisis in the healthcare system has been more about the values we share as Canadians than about the type of healthcare system we want *per se*. The debate over a one or two-tier system of health delivery did not focus on which one was most cost-efficient or most effective in delivering services, but which one best reflected Canadian values. The Romanow Commission's final report, *Building on Values*, argued that Canadians' belief in generosity and sharing must continue to underlie our approach to health.

So, too, with regional development strategies. Even without much success, the initiatives in rural and regional development have persisted because they reflect Canadian values and Canadian generosity. Since the late 1950s, Canadian governments of both political stripes have spent hundreds of billions of dollars in the name of economic development in depressed parts of Canada – and they continue to spend. Of course, this makes good politics for governments seeking to remain in power - and we cannot dismiss this fact – but we must also recognize government expenditure for rural and regional development in terms of the Canadian sense of generosity, in terms of Canadian values, and in terms of the commitment of Canadians through their governments to social inclusion. If we do so, then Canada's vast expenditures on rural and regional development strategies and programs begin to make sense, and helps to explain why they have remained an important part of Canadian public policy over the last half century without having achieved much in the way of economic sustainability and economic growth for the nation's rural and economically depressed regions.

While rural development[3] is often taken to mean the various government policies designed to improve the employment opportunities, income levels and the general standard of living in rural communities, it can also mean the various transportation initiatives and other public services which are provided for the development of all of Canada. It might also include the various social programs which were designed, in some instances, to raise income levels and the standard of living of all Canadians. This paper merely recognizes that the various social welfare programs and transportation (and infrastructure) initiatives at both the federal and provincial levels, for instance, have been used as development tools for rural and urban Canada, but it does not attempt to include these in the analysis that follows, even though some of the national social programmes such as Unemployment Insurance – or Employment Insurance as it is now known – were clearly an attempt to deal with the problems of rural Canada.[4] However, the impact of these programs is not included in this analysis, except to acknowledge that most of the social welfare benefits have served to raise income and living standards throughout all rural Canada. Social insurance and income support programs that are available to all Canadians are not regional development per se, even if they have clear regional impacts. The focus in this paper is on regional policy, not policies with regional impacts such as EI, or equalization or even exchange-rate policy for that matter. Yet, it must be acknowledged that such policies are important, and any changes to such programs as Employment Insurance will have profound impacts on certain Canadians, particularly those employed in seasonal and resource-based industries, most of which are in rural Canada.

This paper is divided into several parts. First, it will provide an overview of recent social and economic trends in Newfoundland. Second, it will provide a brief history of rural and regional development strategies in Canada. Third, it will examine the recent attempts at rural development in Newfoundland, before it turns to the experience of other jurisdictions with rural development issues. It then offers a conclusion, highlighting some of the trends in rural and regional development. Yet, I should be clear: this paper is primarily a review of the Canadian literature and experience, and it is not intended to be an assessment of the literature and experience specific to Newfoundland and Labrador, though I hope that some understanding of the pan-Canadian experience might prove useful to understanding regional and rural development in this province.

Economic and Social Trends in Rural Newfoundland

The province of Newfoundland and Labrador is one of the most rural and economically depressed provinces in Canada, though the development of the province's oil and gas reserves made change significantly its economic situtation. As this paper focuses primarily on this province, it is perhaps appropriate to begin with a brief overview of the economic and social trends in rural Newfoundland. The prospects for rural Newfoundland, even by the provincial government's own admission, are stark as it is for most rural areas in Canada. The Economics and Statistics Branch of the Department of Finance released a summary report of its multi-year, interdepartmental investigation into the demographic trends in *Demographic Change: Newfoundland and Labrador Issues and Implications* in April 2002. The report served to confirm what most people in the province already knew – there are several demographic trends that are having a significant impact on the province, namely, the high levels of net out-migration, the rapid aging of the population, and a significant shift in the regional distribution of the population.[5] (see Table 1)

Table 1 - Population by Census Division, 1996-2001

Population Counts, for Census Divisions, Newfoundland and Labrador, 2001 and 1996 Censuses - 100% Data

Region		Population 2001	Population 1996	Percent Change	Land area in square kilometres, 2001	Population density per square kilometre, 2001
Canada		30,007,094	28,846,761	4.0	9,012,112.20	3.3
Newfoundland and Labrador		512,930	552,195 *	-7.1	370,501.69	1.4
Division No. 1	Avalon Peninsula	242,875	251,523	3.4	9,218.43	26.3
Division No. 2	Burin Peninsula	24,371	27,723	12.1	6,099.04	4.0
Division No. 3	South Coast	19,370	22,469	13.8	19,897.97	1.0
Division No. 4	St. George's	22,167	24,824	10.7	7,087.76	3.1
Division No. 5	Humber District	40,466	44,319	8.7	10,365.63	3.9
Division No. 6	Central Newfoundland	36,208	39,118	7.4	16,237.11	2.2
Division No. 7	Bonavista/Trinity	37,335	41,534	10.1	9,580.21	3.9
Division No. 8	Notre Dame Bay	42,186	48,247	12.6	9,315.44	4.5
Division No. 9	Northern Peninsula	20,091	22,865	12.1	13,526.85	1.5
Division No. 10	Labrador	27,864	29,564 *	5.7	269,073.30	0.1

* Population adjusted by Statistics Canada after official Census release. For more information, please contact the Newfoundland Statistics Agency

Source: Statistics Canada, 2001 Census of Canada

After decades of slight annual increases in the population of Newfoundland and Labrador, the province entered, in 1994, a period of continuous population decline. Today, it has the lowest birth rate of any province at 1.3 children per child-bearing age woman on average,[6] and the highest rates of net out-migration. With the declining birth rate and the out-migration of younger people, the population aged considerably over the latter part of the 1990s. In 1971, the province's median age was five years lower than the Canadian average, but in 2001 it was slightly higher than the Canadian average. The Department of Finance study does not expect those out-migration numbers to reverse themselves until 2010 (see Table 2).

The rural areas of the province have been more adversely affected than the urban areas with these demographic changes. With the decline of the fishery in the early 1990s, the regions of the province most dependent on the ground fishery experienced the largest population losses. With the continued out-migration of youth from the rural areas for education or employment opportunities, together with the low fertility rates, it is clear that not only will there be fewer people in the rural areas but that they will also be older. Some of the regions of the province have suffered such a population decline that some have questioned whether or not many rural communities are sustainable.[7] Several regions of the province have seen their populations decline by more than 20 per cent between 1991 and 2001, and even some government officials have come to realize that some areas of the province are losing any economies of scale for the provision of government services that had been achieved; that some regional health facilities may be placed in jeopardy; that enrolment in some rural schools has decreased by as much as 40 to 60 per cent (and with further consolidation difficult because of the distances between communities), it might be necessary to return to multi-grade classrooms and even then the support for special needs students and the ability of schools to offer the programs needed for graduation will be threatened; that the impact of out-migration of young workers with the skills and education needed by businesses might adversely affect future economic development; and that some municipalities might not be able to survive the changing demographics.

Table 2 - Population by Age Group, Newfoundland and Labrador, 1987-2002

Age Group	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Both Sexes	**575.135**	**574.994**	**576.412**	**578.064**	**579.525**	**580.162**	**580.195**	**574.628**	**567.954**	**560.584**	**554.076**	**545.300**	**540.895**	**537.877**	**533.816**	**531.595**
0-4	41.832	40.369	39.083	38.517	37.672	37.018	36.251	34.866	32.781	30.920	29.488	28.193	27.233	26.656	25.822	25.290
5-9	46.930	45.986	45.165	44.205	43.128	41.866	40.458	38.930	37.936	36.710	35.257	33.715	32.363	30.596	29.275	28.403
10-14	54.119	52.472	50.918	49.290	47.611	46.803	46.132	45.037	43.720	42.349	40.558	38.738	37.279	36.401	35.285	34.367
15-19	57.601	56.621	55.961	55.482	54.690	52.746	51.002	49.286	47.748	46.011	44.523	42.956	41.965	40.877	39.837	38.470
20-24	52.946	52.210	51.573	50.407	50.537	50.738	50.307	48.614	46.479	44.414	42.914	40.810	39.704	38.697	37.530	36.730
25-29	49.294	49.232	49.394	49.676	49.308	48.767	48.111	46.390	44.309	42.186	40.573	38.878	37.745	37.015	36.264	35.509
30-34	48.633	48.687	48.680	48.767	48.870	48.827	48.741	48.016	47.163	45.872	44.562	42.560	40.870	39.488	38.209	37.480
35-39	44.818	45.616	46.590	47.387	47.788	48.072	48.329	47.891	47.366	47.007	46.436	45.649	45.198	44.751	43.783	43.012
40-44	36.426	38.335	40.247	42.353	43.446	44.280	45.180	45.724	46.033	46.039	46.066	45.818	45.625	45.530	45.458	45.302
45-49	26.577	27.920	29.239	30.633	33.220	35.663	37.642	39.457	41.243	42.022	42.750	43.291	44.029	44.608	44.731	44.949
50-54	23.094	23.292	23.941	24.525	25.146	25.993	27.185	28.321	29.493	31.943	34.156	35.927	37.706	39.586	40.486	41.216
55-59	21.525	21.814	21.914	21.966	22.001	22.231	22.568	23.138	23.633	24.088	24.821	25.954	27.103	28.211	30.465	32.695
60-64	19.682	19.745	19.979	20.378	20.345	20.399	20.734	20.894	20.972	21.013	21.171	21.370	21.937	22.534	23.019	23.785
65-69	18.328	18.455	18.315	17.775	18.166	18.142	18.150	18.340	18.655	18.639	18.664	18.937	19.090	19.205	19.270	19.461
70-74	14.441	14.527	14.699	15.187	15.443	15.918	16.084	15.925	15.494	15.819	15.829	15.798	16.017	16.340	16.304	16.290
75-79	9.731	10.270	10.886	11.264	11.405	11.461	11.549	11.676	12.093	12.382	12.813	12.911	12.855	12.511	12.806	12.864
80-84	5.186	5.356	5.673	6.003	6.472	6.823	7.214	7.638	7.882	7.919	7.945	8.024	8.154	8.559	8.782	9.098
85-89	2.664	2.730	2.780	2.881	2.798	2.895	2.989	3.162	3.425	3.731	3.930	4.091	4.303	4.462	4.510	4.569
90+	1.308	1.357	1.375	1.368	1.479	1.520	1.509	1.534	1.529	1.520	1.600	1.650	1.729	1.850	1.980	2.105

Source: Statistics Canada: Demography Division;

Economics and Statistics Branch, Newfoundland Statistics Agency

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It is cold comfort for the provincial government that the net out-migration has slowed, as its own analysis suggests that the population will continue to age and the regional shifts toward urbanization will probably continue, though at a slower rate than in the past decade. These trends will pose significant challenges to the provincial government over the next decades in the provision of healthcare, education, social services, transportation networks, and the viability of certain municipalities. Moreover, it will also have an impact on economic growth. The situation in much of rural Newfoundland is critical. The problems are immense and the outlook bleak, and all this in a province where regional and rural development strategies have a long history, dating back to the 1930s at least.

Brief History of Rural Development in Canada

In the first decade following the Second World War, the Liberal governments under Prime Ministers Mackenzie King and Louis St. Laurent presided over a relatively buoyant economy. The manufacturing/industrial sector grew rapidly as did the resource sectors. The economy was nurtured along by the broad Keynesian fiscal and monetary policies designed to generate a high level of employment. The government ushered in the 'redistributive state' which included equalization payments to the provinces and a series of personal transfer payments such as Old Age Pensions, Unemployment Insurance, and Family Allowances to individuals and families.[8] They never thought much about regional disparity, even though the benefits were not shared equally, particularly in the areas where agriculture and fishing predominated. Even though governments had, in some instances, the capacity and the willingness to play a greater role in the economy and the society, there was still a reluctance to become involved everywhere, and there was no clear recognition in the government that there were serious structural problems with much of rural Canada. Even so, the early federal attempts to deal with specific problems in particular sectors might be considered an early form of rural and regional development. Because much of the economic distress in agriculture and the fishery seemed to revolve around fluctuations in commodity prices, Ottawa believed that its initiatives such as the Agricultural Marketing Act of 1949, for instance, could fix the problem. It was assumed by policy makers that by stabilizing markets and prices, rural incomes could be increased and farming communities sustained and regional disparity reduced. Together with other government initiatives to improve productivity and increase production of farmers and fishermen, the belief was that farming and fishing communities would do just fine, and any displaced worker from the increased use of technology in those sectors would find employment in other areas of the economy. The state planners would continue to provide the right fiscal and monetary conditions for growth and prosperity, and transfer payments to individuals would assist in raising living standards.

In the late 1950s and early 1960s, any concern with rural and regional disparity may have seemed strange to many Canadians, as everyone seemed to agree that prosperity and economic growth were a hallmark of the postwar period. There were no policies designated as regional development policies. Yet, when the Royal Commission on Canada's Economic Prospects (the Gordon Commission) reported in 1957, it noted that while all regions of Canada had shared in the economic growth of the country since the late 1930s, the growth had not been shared equitably. The Royal Commission paid particular attention to the problems faced by the Atlantic Region where both incomes and standards of living were far below the national averages. The Report noted the prevalence of subsistence farming, fishing and logging, and suggested that the long-term solution was for more capital investment in the rural and fishing communities, with the displaced workers migrating to jobs and higher wages in Central and Western Canada.[9] Walter Gordon also noted that the living standards and incomes would have been lower still in the depressed areas except for the social welfare policies. In fact, he argued that for much of Atlantic Canada, the transfer payments from Ottawa had played a much more significant role in increasing personal income per capita than had been the case elsewhere in Canada: such transfers accounted for nearly one-quarter of the rise in personal income per capita in the three Maritime provinces since 1926, even though the increase in earned income per capita in the Atlantic region had been the lowest of any region in Canada. He attributed the lag to the low rate of new capital investment in the Atlantic region.[10]

Some of the provinces had already recognized the existence of rural poverty and attempted to find solutions. Such recognition also ushered in an era of the provinces playing an active role in industrial development (that remains alive and well to this day). It may have begun in Nova Scotia. When Robert L. Stanfield was elected Premier in 1956, he recognized that rural communities with their small farms and inshore fisheries (and other resource-based communities with low productivity and antiquated equipment) were struggling to survive, and one of his solutions was to lend government funds to entrepreneurs to establish local industries to create employment. Throughout the late 1950s and early 1960s, the Nova Scotia government helped to establish small textile, hardboard, and fish-processing plants with mixed success.[11] In fact, many of the poor and depressed provinces in the 1950s created lending agencies such as the New Brunswick Development Corporation, Manitoba Development Fund, Nova Scotia's Industrial Estates Limited and Newfoundland's Newfoundland and Labrador Corporation, each endowed with the power to borrow large sums of money for assistance programs. Millions of dollars of capital were spent – and are still being spent by federal and provincial governments – to persuade entrepreneurs, from major international corporations to shady promoters, to build large industrial plants in places where they would not normally locate. It is easy to find examples of governments offering financial incentives to attract industry – Nova Scotia spent millions trying to lure Clairtone, a high-tech electronics firm, from Ontario to Nova Scotia; Prince Edward Island enticed a money-losing shipyard in New Brunswick to relocate to PEI with provincial government money, and lose more money; Nova Scotia also spent millions to produce unsuccessfully heavy water for Canada's nuclear industry; the Manitoba government offered an American firm millions to build a pulp and paper mill at The Pas which turned out to be a failure. New Brunswick failed to make the Bricklin car company profitable after it failed in California. Nevertheless, with $50 million, Nova Scotia attracted the Michelin tire plant and it proved to be a great success, offering a steady supply of good jobs in a new industry. The Churchill Falls hydroelectric development project was another success, though Quebec continues to reap most of the benefits. And, of course, direct incentives to industries is not simply something of the past: in the early 1990s Premier David Peterson of Ontario spend millions with his IDEA programme to bring high-tech jobs to Ontario; Prime Minister Jean Chrétien continues to offer millions to companies such as General Motors, Toyota, Bombardier and others to invest in Canada; former Premier Frank Mckenna offered millions to businesses to relocate to New Brunswick; and Saskatchewan Premier Lorne Calvert gave an American firm more than $20 million in October 2002 to build an ethanol plant in his province.

With the rise of John Diefenbaker, a champion of rural Canada, to the leadership of the Progressive Conservative Party, regional and rural disparity became important issues as the Party promised to deal with the problems of the less prosperous regions of the country. During the electoral contests of 1957 and 1958, the Conservative Party invited all Canadians to share in their 'vision of the north' and their 'roads to resources.' The Diefenbaker government in 1957 made the reduction of regional differences and the growth of the regional economies important policy issues. He realized that he could not rely on the tax arrangements which came into effect after the war and were firmly established by 1957, nor the existing federal equalization program to achieve a national standard in public services. Moreover, the equalization formula did not provide sufficient financial resources for the 'have-not' provinces to implement policies that might have allowed them to integrate their economies more successfully into the national economy, or to implement policies aimed at stimulating local economic development.[12]

With Diefenbaker, it had become clear that a change in policy focus was necessary. In an earlier period, Mackenzie King had pushed Maritime grievances[13] into the lap of a Royal Commission. During the late 1950s, however, Ottawa was prepared to intervene directly to stimulate growth in the depressed regions of the nation. In his first months in office Diefenbaker implemented a make-work project (Winter Works programmes in 1958-59 and 1959-60) as well as a short-term measure to deal with regional unemployment, and provided a $25 million annual adjustment grant to the Maritime provinces, though these were for general revenue purposes, and were not intended to promote economic development as such.[14] But that would not be enough, and Diefenbaker was well aware of this fact. After all, he had capitalized on the regional economic grievances in getting elected, and he embarked on a series of policies to deal with the problem of regional and rural disparity. He realized that structural changes were necessary in the economically depressed areas to improve the skills of the labour force, provide solutions to the problems of declining industries, and create an infrastructure conducive to industrial growth.

The Pearson government continued to build upon Diefenbaker's beginnings after the Liberals won the 1963 election. The period saw the emergence of the development specialist and economic planner who believed that development was a science, and using the proper scientific approach they could solve the problems of rural Canada with their latest theories. Within 10 years, Ottawa had moved in a very dramatic fashion away from its cautious, conservative, and frugal approach to economic policy to a preoccupation with slow-growth regions.[15] It stacked one development initiative upon another in the belief that these would solve the country's substantial regional disparities. By the late 1960s, it became equally clear that the massive regional development programs were largely unrelated. Each new initiative was designed to address a specific problem of economic development, and much of the planning was carried out largely independently by separate federal departments. Consequently, each program tended to have a different objective, and was attached to a different agency, which meant that overall co-ordination of the various programs was impossible. Moreover, there was also a problem with co-ordination at the federal-provincial level. With any one province, for instance, the federal government could have several unrelated development plans. There was a need for a new institution to bring order and a central purpose to the various agencies and existing regional programs. After more than a decade of that particular approach, the focus turned to the rural communities themselves to find solutions to their own problems. Let us turn briefly to see how this all played out in Atlantic Canada.

The late 1950s witnessed the first of what would be a litany of government strategies and agencies to deal with rural and regional development. Fulfilling a promise he had made in Moncton in 1957, Diefenbaker introduced the Atlantic Province Adjustment Grants, a payment in addition to the regular equalization payments, that provided large capital grants for hydroelectric development and other capital projects. Such initiatives provided jobs and income for local communities, but rarely provided long-term solutions to the economic problems that confronted rural communities.[16] Alvin Hamilton, the Minister of agriculture, introduced in 1961 the Agricultural Rehabilitation and Rural Development Act[17] (ARDA), the first explicit policy to create a national program for rural development, though it built on the Prairie Farm Rehabilitation Act of 1935 that had helped to lessen the effects of the Great Depression on farmers. ARDA was designed to raise farm incomes and make farm land more productive, and although the Minister was empowered to develop agreements with the provinces to accomplish his objectives, the program lacked a clear focus, and had a modest impact. It failed to bring fundamental changes to the rural economy, and there was little co-ordination between the provincial and federal levels of government or between the rural and urban areas. Of the 729 ARDA projects (with a value of $61 million) initiated by 1965, there was little to 'suggest that they were seen as part of a comprehensive development program.'[18] And, the problem of rural poverty was a stubborn one. In many rural areas, profitability in agriculture had come to mean large, mechanized farms; it was a futile exercise to try and rehabilitate the family farm. Farm improvements and efforts to stimulate tourism could increase rural incomes marginally, but a long-range solution had to involve more fundamental changes in the rural economy.[19]

Other programs followed in rapid succession, and most were reportedly aimed at creating a regional economic strategy for Atlantic Canada. In implementing the recommendations contained in the Gordon Report, Ottawa created the first regional economic strategy for the Atlantic region with the creation of the Atlantic Development Board in 1962. Staffed by individuals from several federal departments, it was expected to develop, in conjunction with the provincial governments, a regional development strategy through the Atlantic Development Fund of $186 million to develop and improve the region's basic economic infrastructure. Over half the Fund was spent on highway construction and water and sewage systems, though some was used for electrical generating and transmission facilities and to service new industrial parks at various locations throughout the region. The ADB was never able to bring the provinces and Ottawa together to create and implement a comprehensive plan gearing expenditures towards specific targets, and it failed to deliver a comprehensive regional development plan for the Atlantic provinces. Moreover, some of its critics charged that it simply became a political tool of powerful Liberal cabinet ministers when they returned to office in 1963. It was dissolved in 1969.

When the Liberals were returned to office in 1963, they expanded on ARDA, shifting its focus from largely individual and unrelated agricultural assistance projects to a more systematic and co-ordinated regional development strategy. In 1966 the program was renamed the Agricultural and Rural Development Act, and expanded to include non-agricultural programs in rural areas, designed to absorb surplus labour from farming. Also, in 1966, under the Act, a Fund for Rural Economic Development (FRED) of $50 million was established to be applied only in areas with widespread low incomes and major problems of economic adjustment. These areas were so lacking in social capital, education, and wealth that the federal government decided that the regular ARDA grants would have virtually no impact. Five regions were identified under FRED: Gaspé Peninsula in Quebec, two regions in New Brunswick, all of PEI, and parts of northern Manitoba. Separate and comprehensive development plans were developed for each of the regions to invest in infrastructure and industry.

The revised ARDA and FRED marked a shift in emphasis from land improvement towards the building of more effective social and economic infrastructures in depressed areas and towards training for employment in non-primary industry.[20] In 1963 the federal Liberal government also introduced the Areas Development Authority and the Areas Development Incentives Act, providing for the encouragement of 'industrial development in areas of chronic unemployment on a planned basis' by providing for both tax relief incentive and cash grants to industry. Such designations were sometimes made on the basis of the most inadequate statistics, and incentives were given to industry without any effective attempt to specify what objectives were being pursued. The central purpose behind these initiatives was to turn to the private sector to stimulate growth in economically depressed regions, using the growth-pole model that was focussed first on urban areas and assumed that economic prosperity would spread from the centre to the periphery of a region.[21] This was the period of the social service state in Canada when governments expanded at a rapid rate. Government transfers to individuals increased by 400 per cent between 1965-75, and made a remarkable difference to individual citizens, and the expenditures to deal with rural development came to be seen as another centralized 'social' program.[22] The federal transfers directed at 'person equity' rather than 'place equity' were making a considerable impact, but the rural and regional development strategies remained poorly developed and largely ineffective.[23]

In Ottawa's continued search for solutions, its approach to integrated planning was to reach its pinnacle with the creation of the Department of Regional Economic Expansion (DREE) in 1969 under one of the most powerful Ministers in the federal cabinet, Jean Marchand. He had the responsibility for co-ordinating the various federal programs in regional economic development.[24] The creation of DREE represented a move away from the ad hoc and incrementalist approach to development to the more co-ordinated policies which was a reflection of the increasing disposition towards rationality in public policy in Ottawa, as well as a move by Ottawa towards more precise and comprehensive formulations of federal objectives and more effective controls to ensure that federal monies spent for regional development met these objectives.[25]

DREE embraced a two-pronged approach to rural and regional development. The first was an industrial incentive program, providing capital assistance to encourage companies to locate in 'less-favoured' areas of the country in hope of redressing regional economic disparities. This assistance was available in all Canada except British Columbia, Alberta and that part of Ontario south of the Ottawa River. The second focussed on the 'special areas' of Canada where the government found that neither infrastructure nor social facilities and services were available. For these areas, DREE provided a comprehensive program that included the development of educational training facilities, industrial parks, the construction of housing, the provision of a range of social and health services, and the creation of jobs, either in services or manufacturing. Both types of initiatives were funded and administered as federal-provincial partnerships, but Ottawa provided much of the money for these initiatives. However, there was considerable criticism that the regional development programs were too much under central control and that the provinces should have been given greater autonomy over the design and implementation of DREE-funded projects. In 1974, Ottawa attempted to address this criticism and moved toward a more decentralized approach through the establishment of General Development Agreements with all the provinces except Prince Edward Island. These were comprehensive agreements to stimulate economic growth in depressed areas, and involved not only DREE and the provinces, but other federal departments as well. The change did not transfer responsibility for planning to local people, but merely made provincial planners partners with federal ones. DREE also shifted its attention from rural development towards regional urban industrial development and moved to more project-based funding. The philosophy underlying this shift was based on the then-dominant international development theory that believed if industry could be established in particular cities, they would become growth-poles for the region by creating and sustaining a series of linkages into the region.[26] This clearly did not have the impact that its planners had hoped.

Were these regional development strategies effective? There is no easy answer. Some have argued that the federal government of Pierre Trudeau focussed its attention on regional disparity in Quebec and Atlantic Canada after 1968 in an attempt to keep the nation united.[27] Of course, the problem of regional disparity was not solved, but the various personal transfers and social programs from government allowed the people of the disadvantaged regions to improve their standard of living.[28] The various development strategies also helped to increase incomes. Some, such as Queen's University economist Thomas Courchene, have argued that such development programs and transfer payments, in general, had prevented the necessary economic adjustment that is needed to make the regions economically independent; he argues that Ottawa's attempts have only increased the problems of underdevelopment.[29] Looking at northeastern New Brunswick in 1989, Donald Savoie concluded that although the various programs resulted in better infrastructure, higher income, and greater numbers employed throughout the region, 20 years of economic planning have resulted in limited success. It was essentially a top-down approach and, as such, it ignored the local communities, their culture, and their views. He concluded that the planners simply refused to look beyond the model of development that had brought success to the industrial heartland of Canada.[30] There was very little understanding or sympathy for the 'rurality' that the policy makers discovered in the economically depressed regions of Canada.

In 1982, DREE was transferred to the Department of Trade and Commerce with the creation of the Department of Regional Industrial Expansion (DRIE) to wind down many of the earlier initiatives undertaken by its predecessor. The Ministry of State for Economic and Regional Development was designed to co-ordinate federal action to encourage and foster regional and rural development, an approach that made all departments of government responsible for regional development. Of course, the demise of the highly touted DREE and the assault on the deficit in the 1980s did not mean the end of federal attempts to solve the problems of rural Canada. The Government of Prime Minister Brian Mulroney, elected in 1984, gave responsibility for regional development to two new agencies which continue to function in Atlantic Canada and the West, the Atlantic Canada Opportunities Agency, which some critics derided as "just another shuffle of the ancient cards of regional inequality," and Western Economic Diversification Canada (1987). Ottawa's growing deficit soon forced it to reduce the agency's funding, but both ACOA and WED exist primarily to support promising entrepreneurship, innovation, and technological development in the regions.

In 1986, the Department of Employment and Immigration Canada became involved with rural economic development through its Community Futures initiative. It was largely a job-creation and economic development program that encouraged local volunteers to work with Community Futures Consultants to promote economic development in their towns and regions. At the national level, the pan-Canadian network of Community Futures programs continues to help communities grow through business development and support, though the program operates on a regional level through involvement from various federal agencies. Every Community Business Development Corporation (CBDC) effort, whether at the local, provincial, Atlantic, or national level, has one purpose – economic development at the local and regional level. With the aid of its funding partner, the Atlantic Canada Opportunities Agency, the Community Business Development Corporations of Newfoundland and Labrador (CBDCs) are a network of independent not-for-profit corporations which have as their mandate, the development of small business throughout rural Newfoundland and Labrador. The 15 corporations are part of the Community Futures network of the 250 CBDCs across Canada, that work in partnership with all levels of government to ensure that the financing and advisory needs of small and medium-size businesses are met to the greatest extent possible.[31] In 2001, CBDCs in Atlantic Canada invested $29,720,208 in small business loans into the rural economy, and created a total of 2,626 jobs. Counselling and other business support were provided to clients and small business owners. However, the funds must also be found within rural Canada to finance rural activities. In Newfoundland, the various credit unions should be expected to play a larger role investing in the local economy.

The Canadian Rural Partnership, now in its fifth year, is the most recent attempt by Ottawa to support rural development. Like most provincial governments, the federal government is now committed to the belief that the key to the long-term success and viability of rural Canada lies in its communities. A successful community, the federal government tells its rural citizens, attracts, develops and retains people which is essential in building the capacity of rural communities. A successful community, the rhetoric goes, is healthy and socially, culturally and economically vibrant, and one that deals with environmental issues in a responsible manner. Ottawa now claims it places considerable emphasis on listening to Canadians, and its promotional literature claims that it has learned how to support the fundamental elements that build successful communities. Since the Partnership was launched, the government's stated objective was to reconnect itself with rural Canadians, and to strengthen the economic and social foundations of rural areas. Its goal has been to promote greater consideration of rural issues and concerns in the design and delivery of federal policies and programs. It encourages federal departments and agencies to scrutinize their policies and programs through the eyes of Canadians living in rural and remote areas, or through the 'Rural Lens' as the government calls it. The Rural Lens, developed through a Rural Dialogue between the federal government and rural and remote Canadians, is supposed to ensure that new programs, services and policies are appropriate for rural Canadians. Consequently, when considering future initiatives, decision-makers are supposed to make a concerted effort to understand the impact of new policies and programs on rural Canada.

Although the government has to report annually to Parliament on its progress in meeting rural and remote Canadians' needs and priorities, there is no clear evidence that the initiative will make a great difference. Sure, the federal government continues to re-affirm its commitment to rural Canadians, as it did in the October 2002 Throne Speech. The Honourable Andy Mitchell (Rural Development and Federal Economic Development Initiative for Northern Ontario) said the Speech from the Throne includes strategic investments to ensure a better future for rural and remote Canadians. "Our goal is to build a viable rural Canada," said Mr. Mitchell. "Dynamic communities are vital to our well-being and they make rural Canada a great place to work, live and raise a family. If we are to have a successful nation, it is absolutely critical that both of its component parts – both urban and rural – are strong."[32] The success of the Partnership has been emphasised at two National Rural Conferences organized by the Canadian Rural Partnership in each of the past two years. There have been some successes such as the Kuh-ke-nah Network (K-NET) of Smart First Nations Aboriginal Demonstration Project that is helping people in remote communities receive attention from healthcare professionals through computer video conferencing – without having to leave their community. This has been made possible through Industry Canada's Smart Communities program, involving five First Nations in northern Ontario, and with funding from the Federal Economic Development Initiative for Northern Ontario (FedNor), Industry Canada, Indian and Northern Affairs Canada (INAC), and Health Canada. Other initiatives have been directed towards problems of drug abuse in rural Canada. Some of the triumphs heralded by Lyle Vanclief, the Minister responsible for Coordinating Rural Affairs, such as the development of Community-Run Wharves along the Saint John River are of dubious long-term value. Still, when the Canadian Rural Partnership can bring together 500 people for the National Rural Conference as it did in Prince Edward

Island in April 2002, it is an indication of the number of people that the federal government has attracted to its mission. Yet, the information available thus far on the initiative comes largely from federal sources and is quite congratulatory. This is not surprising given that the funding initiatives are generally announced by local Liberal Members of Parliament or regional Ministers.

To conclude this section, it is relatively safe to say that there has never been in Canada a coherent well-articulated policy for the development of rural Canada. I suppose one could make the claim that the system of revenue transfers to the provinces following the Report of the Rowell-Sirois Commission in 1940 was one of the first attempts by Ottawa to deal with regional disparity. There followed a succession of programs, agencies and funds in the postwar generation to deal with something everyone considered a form of development strategy for rural and economically depressed regions. However, the programs were haphazard at best and seemed to follow a particular model of development that often did not consider the difficulties facing the rural areas. Yet, these programs increased the standard of living of thousands of people even if they did not invest in the social capital of rural areas and did not come anywhere close to solving the problem of rural Canada or of fostering the development of rural Canada.

Recent Development Policy Approaches in Newfoundland

At the same time that Ottawa was pursuing its strategies to deal with rural and regional disparity across the nation, the provinces were developing parallel and overlapping rural and regional development initiatives. Newfoundland, for example, one of the most rural and economically depressed provinces in Canada, have also been one province that has been the focus of regional and rural development strategies, dating back, at least, to the 1930s when it was governed by the Commission of Government. When it joined Canada in 1949, it was the poorest province, and remains so today. In fact, in recent years its population has declined remarkably in the rural areas as the province has lost population each year since 1994, and the outlook is bleak for most rural areas of the province. The post-1949 period saw a concerted effort at economic development under the stewardship of Premier Joseph R. Smallwood. The first attempt focussed on small-scale manufacturing, and the second (by the 1960s) attempted to blend manufacturing with large resource-based megaprojects. By the late 1960s, when a number of communities in rural Newfoundland became disillusioned with the government's approach, citizens organized at the grass roots level to find solutions to their own economic problems. This resulted in the emergence of the province's regional development associations, first in the northern regions of the province, but it eventually spread throughout the whole province. Some of these initiatives resulted in the establishment of fisheries co-operatives such as that on Fogo Island. Over time, however, the regional development associations became vehicles for local communities to lobby government for short-term projects to allow citizens to qualify for Employment Insurance. From 1978 to 1994, the federal and provincial governments signed three five-year agreements to provide support to these initiatives which often led to job creations programs. As Doug House has argued, "despite their good intentions and best efforts the RDAs [Regional Development Associations] found themselves caught up as dependents in a process of patronage politics and patronage administration."[33] Even the resettlement program which has been criticised in many quarters,[34] succeeded in improving the social capital throughout the province as it brought much improved amenities and educational opportunities to many of the people who moved to larger communities. In 1980, the Economic Council of Canada recommended in its report, *Newfoundland: From Dependency to Self-Reliance*, that the provincial government "adopt a strategy ... that aims to provide services and employment opportunities on major peninsulas, so that rural people can participate in the market economy without giving up their homes and moving their families."[35] This 'Bays to Peninsulas'strategy is akin to what has happened elsewhere: as societies develop, urbanization occurs on a wide scale, a process that has been occurring in Newfoundland and Labrador for more than a century, and it should not surprise anyone that the process will continue as more opportunities for employment occur in the larger urban centres.

One striking feature of the approach to rural and regional development within Newfoundland and Labrador since the 1980s has been the number of major government-sponsored studies of the problem. Premier Brian Peckford appointed a Royal Commission on Employment and Unemployment in 1985 which called for an integrated strategy for social and economic development and employment creation. After the Conservatives were defeated by the Liberal Party, Premier Clyde Wells appointed Professor Doug House, a sociologist at Memorial University who had been Chair of the Royal Commission, as the Chair of the Economic Recovery Commission (ERC) in June 1989 to foster the economic development of the province. In 1990, Premier Wells asked a group of his senior officials to draft a strategic economic plan for the province. In June 1992, the group released its report, *Change and Continuity: A Strategic Economic Plan for Newfoundland and Labrador*. Two years later, in March 1994, the provincial and federal governments jointly appointed another group, this time a Task Force on Community Economic Development to work on the model of community-based partnership. Doug House was appointed co-Chair.

Equally striking is how similar the recommendations of each study have been, giving credence to my earlier claim of the prevalence of a 'herd-mentality' at various times in rural and regional development strategies. Together, the reports recommended an integrated approach to rural and regional development, having the various agencies and departments of government working together to achieve common objectives. In such an approach, the educational system would teach young people about provincial and regional development and entrepreneurship, the government policies for the inshore fisheries should complement local initiatives for employment creation, the income security system should encourage people to work, and labour relations should allow for both job security and high productivity. All of them recognized the need for planning and training; economic diversification; promotion of entrepreneurship; establishment of regional economic boards; and sustainable community development. Following the lead of the first two reports, the 1994 Task Force recommended in its report, *Community Matters: The New Regional Economic Development*, that the "local people themselves should play the lead role in their own region's economic development," though government would play a strong "supportive role." The federal and provincial governments subsequently endorsed the approach set out in the report of the Task Force.[36] Yet, all of the report as well as the Economic Recovery Commission maintained that the private sector had to be the "main engine of economic development, with government playing a supportive and facilitative role."[37] This was a view not unlike that of many of the earlier initiatives at both the federal and provincial levels.

The current trend is towards 'place-based development.'[38] Simply put, this means that rural policy must focus on a particular place. Any strategy to revive rural areas must begin with the assets, aspirations, and challenges of the place to be developed. This approach insists that the policy or set of policies for development must be driven by the citizens, institutions, and government of that particular place. Moreover, in this strategy the policies must be holistic and comprehensive, focussing on the social, cultural and environmental well-being of the place as well as the economy. At one point, it was the belief of rural development specialists that the various levels of government must provide the environment to attract industry to rural areas, the emphasis has shifted in this new 'place-based' approach. Now, the belief is that the federal and provincial governments must provide an environment in which local development initiatives can take place.

The 'new' approach to rural and regional economic development coming out of all the various studies recommended that the province be divided into (eventually) 20 zones with a regional board for each. The provincial and federal governments accepted this approach. Subsequently, board members were chosen by their community and not appointed by governments. These community-based volunteer boards now support economic development planning and coordination within 20 economic zones in the province. Consisting of representatives of municipalities, business, labour, community development groups, education and training institutions as well as other interests in the zone, the boards reflect a diverse cross-section of the region. This ensures that the strengths of all aspects of the local economy are represented. Each Regional Economic Development Board (REDB) had to negotiate a Phase 1 Performance Contract with the Canada/Newfoundland Strategic Regional Diversification Cooperation Agreement (SRDA) Management Committee which would provide funding for the initiative. Once the zonal board was in place, it was given one year to develop a strategic economic plan that would integrate existing plans and initiatives, and not have to start from scratch. Each board would then negotiate Phase 2 of the Performance Contract with the SRDA Management Committee, which would give the boards a five year contract to implement the strategic economic plan for the zone, with annual assessments reviewing the progress of the boards and governments in fulfilling their respective commitments. Together, those strategic plans would give government, for the first time, a clear reference point to determine the vision, goals and objectives of the whole province. What would result, the government hoped, would be a provincial vision and plan, but one informed by the strategic strengths and opportunities identified in every region of the province. Some of the regional boards included the youth as board members. A three-year $81.25 million Canada-Newfoundland Agreement for the Economic Development Component of the Canadian Fisheries Adjustment and Restructuring Initiative (EDC) was signed on August 16, 1999 to make the plan work. The agreement was designed to build upon the strategic plans and priorities of the regional economic development boards to improve the long-term economic climate in regions impacted by the downturn of the groundfish industry.

There were several obstacles to this approach to rural development, not least among them was that it was very difficult to mobilize people in support of the process. The fisheries crisis and the various programs to deal with the moratorium (including the The Atlantic Groundfish Strategy, TAGS) fragmented many rural communities. Professor House has acknowledged that for the new regional development strategy to function properly in Newfoundland, it would have required 'a concerted effort at public education about the new approach and at mobilizing greater community involvement.'[39] Such education takes time, and the educational system must be willing to accept this role for it. There is little indication that this has occurred. Moreover, many of the people who had been involved in the regional development network in the province had been discredited in many ways by Professor House and in the various government reports. Since the early 1970s, there had been a movement towards locally-based economic development initiatives in the form of regional development associations, but House maintains that those associations, like the people themselves, had become too reliant on government programs. While this might have been the case (and, I suspect it was, it is beyond the scope of this paper to make an assessment of the regional development associations), the criticism called into question the success and integrity of the people who had strived at the community level for years. Not surprisingly, the rural-development movement opposed the ERC and its Chair, Dr. House, who some described as a false prophet and one who wanted to impose his ideas on the people. Still, the Economic Recovery Commission, together with the federal government through ACOA, continued to believe that the best strategy for the long-term economic development of the province was to rely mainly on people at the local level in all regions of the province taking more control themselves over their economic destinies. The Economic Recovery Commission was shut down after Brian Tobin became Premier on 17 January 1996,[40] however, the regional boards continue to be seen as essential to the long-term sustainability of the province.

The provincial government continues to place considerable emphasis on two strategies that have been used for more than three decades to revive rural Newfoundland. First, as with the federal government, the Government of Newfoundland and Labrador has placed considerable hope in having all departments of government consider rural renewal as part of their mandate. In this integrated or horizontal approach to policy-making – which Ottawa promoted in the 1960s – all government departments and programs are to support the development of strategic economic plans and partner with zones in implementing their plans. The only difference is the performance contracts. Moreover, all departments would coordinate their programs and services to ensure there was no overlap or duplication, and achieve a more effective approach to economic development. When Premier Tobin named his first Cabinet, he appointed Judy Foote as Minister of Development and Rural Renewal. Moreover, she was appointed to serve on the Planning and Priorities Committee of Cabinet, the Economic Policy Committee and Treasury Board. Premier Tobin also created a Cabinet Committee on Rural Revitalization. Minister Foote said that, "The Cabinet Committee on Rural Revitalization will ensure also that Cabinet decisions consider the implications of all policies on rural areas. Our government has committed all departments and agencies to review their activities and programs to determine how best to support the development and implementation of strategic economic plans in the zones."[41] The government provided support on a regional basis, when it appointed executive level personnel from the Department of Development and Rural Renewal to coordinate all government activities at the regional level. Program activities that had traditionally been delivered from St. John's were moved to the regions. The employees from the Employment Branch of the former Department of Employment and Labour Relations were transferred to the Department of Development and Rural Renewal and served in the regions, thereby ensuring, in the view of the government, that employment programs would be integrated with regional strategic economic plans.[42] The transfer of government employees to the various regions of the province became in itself a means of regional development.

The second 'tried' strategy in the 'New Regional Economic Development' strategy was government's insistence that its role remained one of creating a positive and stimulative business climate in which the private sector would generate sustainable wealth and employment opportunities for the people of Newfoundland and Labrador. Small business development remains a key aspect of the government's rural and regional economic development initiative. The government wanted to ensure that all potentially viable businesses have the opportunity to succeed, and it paid particular attention to assisting small businesses, particularly first-time businesses who have not been able to secure financial guarantees in the private sector. The government realized that 65 per cent of all businesses in the province employed less than five employees, but that the small-business sector had created more than 80 per cent of new jobs in the province since the 1980s.[43] The provincial Department of Industry, Trade and Technology has placed considerable emphasis on attracting new business to the province through a variety of mechanisms, including the introduction in 1995 of the Economic Development and Growth Enterprises (EDGE) legislation, through advertising, participating in trade shows, launching trade missions, and through working with local enterprise to promote locally produced goods and services. Companies with EDGE designation receive a 10-year tax holiday, Crown Land for a nominal fee, start-up incentives, and a facilitator to minimize with various start-up problems. For example, the Premier's EDGE promotional mission across Canada contributed to AbbaCom Logic locating in Newfoundland, one of 72 companies that was given EDGE status between 1995 and 2001. These companies were also credited with creating more than 1,600 new jobs and investing approximately $190 million in the province in exchange for the provincial investment of $5.1 million in incentives that the government claimed all EDGE companies had received by the end of 2001.[44] The Think Again advertising campaign is designed to dispel negative myths which leading Canadian decision makers may have about Newfoundland and Labrador.[45] This national campaign is phase one of a marketing plan designed to demonstrate that Newfoundland and Labrador is the right place for business, and a strategy to reinvent the way people perceive the province and how Newfoundlanders and Labradorians see themselves. The Department of Industry, Trade and Technology is also involved in various trade shows and trade missions designed to promote the province and increase opportunities for Newfoundland and Labrador companies.[46] Again, this is nothing new and is a strategy followed by most of the other provinces as well, though there has been no independent analysis of these programs to measure their effectiveness. In many ways, the government was following the models that were developed elsewhere,[47] though the increasing emphasis on the tourist industry in rural Canada is an attempt to capitalize on the growing concern Canadians, especially those living in urban areas, have with the need to protect the richness of the ecosystem which automatically leads to the protection of rural Canada.[48]

Much of the political rhetoric surrounding these initiatives stressed the fundamental change that was occurring and created a 'new vision' for the province. Premier Brian Tobin dreamed of the province 'reinventing' itself. His successor, Roger Grimes talked of people of the province as "pioneers all over again" when the province had to recover from the failed fishery. This suggests that rural Newfoundland was doing fine before the collapse of the groundfish stocks. This was not the case. Yet, he continued to ask people to put old ways and approaches aside for the greater good of the province, telling them that success will come when "we adopt, as our own, a new way of working and thinking."[49] Yet, the *Final Report on the Renewal Strategy for Jobs and Growth*, released in March 2001, was not remarkably innovative or new.[50] In outlining its five key building blocks necessary to give the province a strong, sustainable, and vibrant economic foundation for long-term growth, Beaton Tulk, then Deputy Premier and Minister of Industry, Trade and Rural Development, said the province had to capitalize on strategic new opportunities for growth in traditional industries, such as the fishery; in maturing industries, such as tourism; and in emerging new industries, such as information technology. It reiterated the long-held view that government has a major role to play as a catalyst for growth in strategic areas, though it must focus on opportunities that have the greatest potential for success. Yet, it must be the private sector that drives the economy, with government providing an environment conducive to success and growth. As is the trend everywhere, the government stressed its commitment to education and training of the province's youth. And, the rhetoric from government continues to stress that its approach to economic development requires effective partnerships between government, the private sector and communities and that it wants to "increase the capacity of communities" to foster and encourage social and economic growth.

Although it is beyond the scope of this paper to investigate in any systematic manner the accomplishments of the 20 regional economic zones, some observations are possible. Each zone has a board of directors, composed primarily of business people and those involved in the rural development sectors. Moreover, it seems that men are over-represented on the boards. Several other observations can be made:

- each zone has a strong focus on tourism.
- not all zones have strategic plans, though most do have some sort of mission statement or primary objectives.
- they all provide contact information and invite people to contact them.
- all but one have websites which provide useful descriptive information and include links with the province and federal agencies but do little else.
- most of the websites are poorly maintained and clearly not updated regularly.

In sum, the regional boards have quite a challenge in reviving rural Newfoundland. It is not at all obvious that the boards have the necessary capacity, or knowledge and resources, to meet the challenges placed before them. Most seem to be focussed on economic development rather than community or regional development. By this, I mean that the preoccupation is with attempting to create employment opportunities in the individual communities, and there is little evidence of any attempt to create 'clusters', one of the new models for economic development. Attracting any industry will be a difficult task for small communities with limited or no capital, except what is available through government and its agencies. The zonal boards do not appear to be addressing the issue of investment for local firms beyond what grants are available from government sources.

What is required in community development and community economic development is a plan that builds on the organization and partnerships within the community and that addresses the social, cultural, and environmental needs of the community as well as the economic ones. Although it is not discussed in this paper, this approach would be akin to the province's Strategic Social Plan that calls for a holistic bottom-up approach that promises to integrate social and economic as well as environmental concerns as a means to integrate social and economic development in the province.[51] Yet, it is not evident that the zonal boards are connected to key interest groups, such as the business people, in the communities, nor is it clear that they are building on the existing strengths within the communities. Many of those involved in the zonal board as directors and staff are often the 'new kids' on the block, and seem to doing what government expects them to do. The community, or the region, must understand fully its strengths, its weaknesses, the opportunities and the threats. Elsewhere, this has been known as SWOT Analysis, and a similar type of analysis must be adopted by the communities before they can move forward. The communities must be clear on how they see themselves, must recognize their weaknesses as well as their strengths, and must be willing to embark on the changes that are inevitably necessary to achieve success. In some cases – perhaps in many cases – communities might realize that their future is likely to be bleak. It is simply wrong and misguided to think that simply because governments and rural experts start talking about empowering communities that this will inevitably lead to economically sustainable communities in Newfoundland. If only it were that simple! All of the communities that have relied on fishing for generations, and have been devastated by the collapse in the fishery, cannot simply start over and thrive. To do so, they need real support and not empty rhetoric. Even with high levels of support, some will simply not survive another generation.

A recent study in Ontario might also be instructive for the Newfoundland experience. David J.A. Douglas and Sanda J. Chadwick from the School of Rural Planning and Development at the University of Guelph undertook an integrated analysis of the changing municipal and community roles and practices in a study titled 'Toward More Effective Rural Economic Development in Ontario' in October-November 2000. What they uncovered for Ontario is rather alarming, given that the New Rural Economy initiative and other 'innovative' measures are demanding that local control is the first condition for effective rural development. Douglas and Chadwick argued that the local economy was central to community survival and quality of life, and that the rural municipal governments will have to play an important role in economic development. They attempted to assess what capacity rural municipalities have to play the role increasingly assigned to them. They concluded that "local economic development is not universally practiced throughout rural Ontario's municipalities. Where it is, it is usually characterized by a rudimentary level of practice, marked by a dearth of know-how, meagre financial and human resources and a general lack of formal plans. While it may occasionally be espoused as a priority," they wrote, "planning for and implementing local economic development is a minor undertaking in the rural municipality, far removed from the priority and resources accorded to other functions (e.g. public works, parks and recreation)."[52] They painted a distressing picture of the role of municipalities in economic development.

While we have not yet had a similar assessment of the current situation in Newfoundland, Doug House has said that for the new regional development strategy to function properly in that province, it will require a 'concerted' effort at public education about the new approach as well as a plan to mobilize the community effort. This has not happened, and it seems most peculiar – and perhaps misguided – that the government is investing so much in the new regional approach to development without assessing the capacity within the communities to meet the challenges thrown at them. Given the magnitude of recent out-migration, and the consequent depopulation of rural Newfoundland, many of the young and energetic people have simply vacated the local communities, taking with them much of the energy and vitality that have traditionally sustained rural Newfoundland. When rural citizens across Canada were probed on citizen engagement and participation in the Rural Canadians Survey, commissioned by the Canadian Rural Partnership in March 2001, there were some disturbing results from Atlantic Canada. The survey found that residents from the Atlantic Provinces were more likely than other Canadians *not* to participate in public opinion surveys and discussion groups if the Canadian government were to seek their views on rural issues. However, on a whole, rural Canadians are interested in being consulted and involved in the decision-making process, and about two-thirds of respondents (65 per cent) said that they would like the Government of Canada to do more in their region in community capacity building. In the Atlantic provinces, the respondents were more likely to think that the Government of Canada should help community groups plan together to develop their community (83 per cent), community groups work together on programs and projects for their community (86 per cent), develop projects to recruit new community leaders and keep existing leaders (75 per cent), and build community networks to help communities determine their future directions (84 per cent). Women were more likely to think that the Government of Canada should help community groups plan together to develop their community (78 per cent) than the men who were polled.[53] We need a survey that delves into those questions in Newfoundland and Labrador.

One must also wonder if there should be only one model for rural development in Newfoundland. By adopting the one-model-fits-all approach and trying to impose it on all of the province, there is an obvious risk that if the model is shown later not to have worked particularly well, then all of the province suffers. A much better approach would be a variety of models that best suit the needs of particular regions to get rid of the cookie-cutter approach to regional development that we have tried for more than a generation. Perhaps most disturbing of all is that the regional approach to rural development in essentially the government's approach, and because it has been so aggressively, and effectively, pushed by governments, even other reasonable and alternative approaches have been largely dismissed.

Going Forward

Newfoundland and Atlantic Canada are not alone in dealing with underdevelopment in rural areas. In fact, this is an issue that confronts – and has confronted – all of Canada as well as the United States and, indeed, many other nations. It is, quite simply, an international issue. We have to be careful in assessing the effectiveness of rural and regional development strategies because, while there are many instances of failure in government policies, people living today in rural areas are better off than they were 50 years ago. Yet, rural and regional development has proven a difficult nut to crack. Various strategies that have focussed on the resource sector, on the subsidization of industries, on the piecemeal approach, and even the integrated regional strategies, have not brought long-term economic growth to most of rural Canada.

Today, the focus is shifting once more everywhere. The current trend is towards 'place-based development.'[54] Simply put, this means that rural policy must focus on a particular place. Any strategy to revive rural areas must begin with the assets, aspirations, and challenges of the place to be developed. This approach insists that the policy or set of policies for development must be driven by the citizens, institutions, and government of that particular place. Moreover, in this strategy the policies must be holistic and comprehensive, focussing on the social, cultural and environmental well-being of the place as well as the economic. At one point, it was the belief of rural development specialists that the various levels of government must provide the environment to attract industry to rural areas, the emphasis has shifted in this new 'place-based' approach. Now, the belief is that the federal and provincial or state governments must provide an environment in which local development initiatives can take place. This might mean, some, such as David Freshwater and Eric Scorsone at the University of Kentucky, have argued that governments provide support (both financial and technical) but give local people the regulatory and fiscal flexibility to craft solutions that fit their particular place. In Newfoundland, this might mean giving regions control of the resources – in the case of the fisheries – in the waters near the communities. The goal, of course, is to build the capacity that rural places need in order to develop in ways that benefit themselves. An important part of the 'place-based approach' must be accountability. Local place-based efforts will and should be held accountable not only for obeying the law in environmental regimes, for instance, but also for ensuring that the development effort is inclusive—soliciting and incorporating the participation of all people in the place regardless of class, race, or whether they are part of the 'in' crowd; that the effort does not destroy the environmental, social, and cultural assets of the region; and, that it does not infringe on the rights of other places as they seek to develop. Moreover, regions have become important in rural development.

Europe has been wrestling with its rural problems for decades, and, in many ways, it has been a leader in the field.[55] Beginning in 1990, the European Commission launched the Leader Initiative. Financed jointly by member states and the European Community, this is a programme to promote community initiative for rural development through a process that focuses on rural empowerment. The LEADER Community Initiative programme has enlisted the capacity of the countryside to modernise and invent. In terms of methodology, LEADER has unquestionably helped spread a particular type of facilitation and rural development strategy, based on seven major components: enhancing the local potential, the establishment of a territorial strategy, the bottom-up approach, the decentralised and complete management of funding, the integrated or multi-sectoral approach, the horizontal and private-public partnership and networking.

Yet, the new approach also insists that rural issues cannot be left entirely to rural people; rural policy must be a shared responsibility. While local people play the primary role, the provincial and federal governments also have critical roles to play. Rural citizens will have to work with their urban and suburban friends who continue to outnumber rural people, and are often in control of most governments. For governments to play a role, they will need 'buy-in' from urban and suburban voters. First, rural people will have to articulate why rural areas need a special policy approach that is different from that for all other citizens. It cannot be perceived as complaining and blaming others for their misfortune; rural areas must be able to articulate why their regions are important to the province or nation and how their prosperity will increase the wealth of the nation either economically, socially, culturally or environmentally. Such a proactive approach has been taken in Ontario where the Ontario Rural Council, a forum which brings together those who share a commitment to building strong rural communities and organizations, launched a Rural Campaign in late 2002 aimed at enhancing public perceptions and attitudes about the intrinsic value of rural Ontario. Among the key objectives of the Rural Campaign are: to create an informed and realistic picture of rural Ontario; help decision makers make informed and appropriate decisions; increase rural influence among decision and policy makers. The Council provides a unique and important opportunity for multi-sector cooperation within the rural sector, and brings together those who share a commitment to building strong rural communities and organizations.[56]

Another aspect of the 'new' approach is rural entrepreneurship. While there is much hope placed in the social and public entrepreneurship in rural areas, it is an area about which we know little. One way forward might be through the creation of a Centre of Rural Entrepreneurship such as those at Crichton University Campus at University of Paisley in Scotland or at the Danish Centre for Rural Research and Development in Esbjerg, Denmark. There are a number of examples in the United States, as well, including the Centre for Rural Entrepreneurship at the Rural Policy Research Institute at the University of Missouri. The primary goal of each centre is to stimulate and support private and public entrepreneurship development in rural communities. Such centres often provide a clear and direct way to create a national focus on rural entrepreneurship and ensure its growth and success. Most of the centres strive to be practical in their research and provide information that can serve as the basis for developing best practices, and have an aggressive outreach programme to engage the practitioner communities on both the public and private sector sides in creating new approaches to rural economic development.

Of course, Canada is also doing pioneer work in community and rural development. The Community Economic Development Technical Assistance Programme is one such example.[57] It is part of the Centre for the Study of Training, Investment and Economic Restructuring (CSTIER) in the Faculty of Public Affairs and Management at Carleton University, perhaps Canada's leading academic centre on local economic development. CECTAP's mission is to enhance the legitimacy and effectiveness of community-based organizations engaged in community economic development (CED) by supporting activities that will strengthen their capacities and increase the visibility, knowledge, coherence and resources of the CED sector as a whole in cooperation with other organizations with similar interests. A variety of local authorities, community-based networks and not-for-profit organizations have been attempting to address the lack of adequate employment opportunities and the need for greater social cohesion through job-creation and enterprise development at the community level. CEDTAP's priority is to support initiatives that will generate tangible results in areas such as resource mobilization, asset building, community enterprise development and job creation as well as provide on-going support to groups emerging in the Community Economic Development (CED) sector. It was created in 1997 as a response to the challenges faced by community groups engaged in CED, including geographic isolation and limited access to technical advice and expertise. Between 1997 and 2000, CEDTAP reached nearly 100 communities across the country and it has stated its intention to assist 500 communities across Canada by 2006. The initial funder for phase two is also The J.W. McConnell Family Foundation, whose $5 million grant will be matched through sponsorhips from other foundations, corporations and government. In addition to a widespread lack of financial resources, many of these groups and activities suffer from isolation, a lack of awareness of success stories, and limited access to professional and technical advice in CED. CEDTAP was designed to address the urgent need for capacity development within the sector, by supporting technical assistance, training, documentation of experience and replication of successful approaches. In its current focus on mature CED initiatives, CEDTAP is offering support to the Great Northern Peninsula

Development Corporation which has recently developed a local equity investment plan, which would serve as a vehicle to help local groups obtain financing for their business initiatives.

The Great Northern Peninsula and coastal Labrador might be interesting case-studies for rural and economic development in the province. The Great Northern Peninsula Development Corporation was created more than a decade ago to develop an integrated strategy for the area. Yet, when the zonal boards were created, the politicians of the day, including Premier Clyde Wells and Brian Tobin, the federal Member of Parliament for the area, personally intervened to create two boards rather than a single one as was recommended. Still, The GNPDC is currently working to establish a business incubation process for the area. Through this process the Corporation intends to bring a high caliber of expertise to the region as well as create a local equity fund to stimulate business development in the region. Another example of success has been the Labrador Fishermen's Union Shrimp Company Limited in L'Anse au Loup which was created in 1978, when the Canadian Department of Fisheries granted to the communities of southern Labrador fishing licenses to the adjacent resources. Several processing plants were erected in the region, bringing a measure of economic success to the area. Similar arrangements have been negotiated between the Labrador Inuit Association and the Canadian and Newfoundland governments. Under a 1999 agreement, the Labrador Inuit were awarded preferred rights to harvest fish in offshore waters and funds for the development of the fishing resources in the area. This is another example of the resource-adjacent principle where people from the local communities are given access to the resources that exist around them rather than see them developed by interests outside the region. This might well be an important development strategy for a number of regions in the province.[58]

With rural development, there may well be two options. The first is that the rural world has the autonomous capacity to revive itself. This option often coincides with a more inward- looking strategy centred on the quality of life and training of the local people, the mobilisation of local players, and the creation of jobs for the unemployed. For this model to function effectively the funds allocated for job creation must be tied to developing community infrastructure for the longer term. Of course, there are countless examples in Newfoundland and elsewhere where job creation strategies had no lasting impact. Even so, a large percentage of the population in many communities will continue to need some form of income support for part of the year, and it is imperative that those people who have to be taken care of must work for the betterment of the community. The second option is more outward looking and tends to focus on importing modernity and recognizing the necessity of working with urban regions, although mobilising the local community and rural players is still considered important. It takes the form of economic development programmes for tertiary activities (tourism, cultural heritage, information technologies) or primary activities (agriculture, food industry, fisheries), the marketing and improved quality of agricultural products and crafts, all with urban people in mind. This approach has been adopted in Japan which has an ambitious rural policy rooted in a deep understanding of the symbiosis between rural and urban life. In Japan – as elsewhere in the world – the rural areas supply the water to the cities, and a portion of water tax revenues is put back into rural areas in the form of assistance programs as part of a comprehensive rural policy that compensates those communities for the important ecological services they render to society as a whole.[59] In both Europe and Japan, the rural policy is based on the notion that rural lands are multifunctional. This simply means that rural areas supply all citizens with safe, quality product that are essential for their survival, that citizens in rural areas occupy a territory and are committed to managing the space and preserving the environment and the landscape, and that rural areas provide a social function through contributing to employment and a way of life to the people who live there.[60]

Conclusion

There has been considerable improvement in much of rural Canada since the end of the Second World War no matter what measurement one selects. The living standards of rural Canadians have improved markedly along with that of the rest of Canadians. Yet, much of rural Canada, including the rural parts of Newfoundland and Labrador, continue to struggle economically. Rural Canada, especially those parts away from the urban centres, is experiencing rapid depopulation. This is perhaps most pronounced in Newfoundland and Labrador and Saskatchewan. Many of the policies to deal with the problems of rural Canada have not brought long-term prosperity, and there is no reason to think that the current policies will be much different. Yet, the attempt to empower rural Canada (and rural Newfoundland and Labrador) to find solutions to their own problems might in some ways be the unkindest cut of all if this approach fails to revitalize and preserve the rural economies. By placing the ball firmly in the hands of rural Canadians, the future rests with them and it is up to them to make the most of it. If this approach proves no more successful than earlier attempts at rural and regional development – and there is no evidence to this point to suggest it is – all might be lost for much of rural Canada.

Yet, for all the attention paid to rural and regional development strategies, there has been little coherent debate in Canada about the future of rural areas.[61] As Canadians, we have never asked ourselves what role rural areas will play in the social, cultural and economic growth of a particular province or of the whole nation. For decades, rural and regional development programs were presented simply as short-term measures to help economically depressed regions catch up to the rest of the nation. Politicians in Canada have never talked about a long-term 'special status' for rural areas, nor suggested that the state make special provisions for certain parts of the country that are economically unsustainable but yet, important, to the social and cultural fabric of the nation. Various government programs, such as Employment Insurance programs, were introduced to soften the impact of economic fluctuations, but soon became, in certain parts of the nation, an integral part of the employment cycle and important for the survival of many workers. The chirade of short-term and periodic income support has continued for many years as Unemployment Insurance, for instance, was defended as a temporary measure even though workers in Atlantic Canada came to depend on it year after year. Rural Canada[62] might well need special status and special support, and I suspect few Canadians would argue that 'rural' has no place in Canadian society. Although we have not had such a debate, rural Canada has already achieved special status through the widespread acceptance over the last half century of a series of rural and regional development strategies that have, in many ways, reflected the true values of Canadians. Even with such a tacit nod by most Canadians to government support for Canada's rural and economically depressed areas, rural Canada faces an uncertain future.

Recommendations

1. If government wants communities and regions of Newfoundland and Labrador to implement strategic plans designed to foster social and economic development, they will have to provide the necessary support to the communities to make success possible. The local citizens will have to be trained in how to recognize their weaknesses, their strengths, their opportunities, and the threats facing them and how to develop strategies to deal with each. The governments cannot simply pursue those initiatives based on empty rhetoric or simply to make citizens fell good because they are being consulted. It should not be assumed that all of the communities in Newfoundland and Labrador will or should survive at any cost to the public purse.
2. Local communities will need much greater support from the educational system than they have received in the past. This is particularly true in the development of entrepreneurial education.
3. The provincial and the federal governments must not provide a single model of economic and social development for the province. Each region or community must be encouraged to explore development models that fit their needs and not be forced into a one-model-fits-all type of approach.
4. Local communities must be encouraged to find local sources of capital, particularly through co-operatives or credit unions in addition to government grants and external capital investment.
5. Governments at all levels must work to limit the rush towards creating tourist attractions all over the province. While some areas will undoubtedly benefit from the tourist traffic, too much of the tourist business is geared towards low-paying and seasonal jobs, even if those jobs do keep some people employed at home rather than in low-paying jobs outside the province. In many ways, tourism has become like the fishery historically – the occupation or industry of last resort: when all else fails, turn to attracting tourists.
6. The federal and provincial governments must consider seriously the resource-adjacent principle and consider ways to allow the regions to develop the resources near their communities for the good of the region. This might be particularly true of the fishing stocks such as shrimp and other high-value species, though it is recognized that this is a controversial issue as many will claim that the resources belong to all of the province and not just to a particular region.

Endnotes

1. Much as been written about rural and regional development as well as economic development generally. See, Gerald Hodge and Ira M. Robinson, *Planning Canadian Regions* (Vancouver, 2001), Robert J. Brym and R. James Sacouman, *Underdevelopment and Social Movements in Atlantic Canada* (Toronto, 1979), and Ralph Matthews, *The Creation of Regional Dependency* (Toronto, 1983).

2. While rural development is often taken to mean the various government policies designed to improve the employment opportunities, income levels and the general standard of living in rural communities, it can also mean the various transportation initiatives and other public services which are provided for the development of all of Canada. It might also include the various social programs which were designed, in some instances, to raise income levels and the standard of living of all Canadians. This paper merely recognizes that the various social programs and transportation initiatives at both the federal and provincial levels, for instance, have been used as development tools for rural Canada, but it does not attempt to include these in the analysis, except to acknowledge that most of the social welfare benefits have served to raise income and living standards throughout all rural Canada.

3. Much has been written about rural and regional development as well as economic development generally. See, Gerald Hodge and Ira M. Robinson, *Planning Canadian Regions* (Vancouver, 2001), Robert J. Brym and R. James Sacouman, *Underdevelopment and Social Movements in Atlantic Canada* (Toronto, 1979), and Ralph Matthews, *The Creation of Regional Dependency* (Toronto, 1983).

4. This point is discussed in Raymond B. Blake, *Canadians At Last: Canada Integrates Newfoundland as a Province* (Toronto 1994). The book argues that by the late 1950s, bureaucrats in both Newfoundland and Ottawa recognized that there were serious structural problems with the Newfoundland fishery and realized that one way to raise the incomes of fishermen was through social programs. While this did not solve the problems in the fisheries, it did serve to raise the income levels and standard of living of those engaged in the industry.

5. Economics and Statistics Branch, Department of Finance, *Demographic Change: Newfoundland and Labrador Issues and Implications* (April 2002). Despite the tenor of the report, it seems strange that all of the photographs included are from rural Newfoundland.

6. *Demographic Change: Newfoundland and Labrador Issues and Implications*, 6-7.

7. Government of Newfoundland and Labrador, *Demographic Change: Issues and Implications* (St. John's, 2002). In total, the province experienced a 10 per cent decline in its population between 1991 and 2001, but the declines have not been distributed evenly throughout the province: around the tip of the Northern Peninsula (Nordic Economic Zone), a 21.5 per cent decline; the area around Port-aux-Basque (Marine and Mountain Zone), a 22.4 per cent decline; the southern Avalon region (Avalon Gateway and Irish Loop), a 20 per cent decline.

[8] See David Wolfe, 'The Rise and Demise of the Keynesian Era in Canada: Economic Policy, 1930-1982,' in Michael S. Cross and Gregory S. Kealey, eds., *Modern Canada, 1930-1980s* (Toronto 1984).

[9] Royal Commission on Canada's Economic Prospects (Ottawa 1957), 401-13.

[10] Royal Commission on Canada's Economic Prospects (Ottawa 1957), 401-13.

[11] E.R. Forbes and D.A. Muise, *The Atlantic Provinces in Confederation* (1993), especially 349-459.

[12] See, Kenneth Norrie, Douglas Owram, and J.C. Herbert Emery, *A History of the Canadian Economy* (Toronto 2002).

[13] See, *Report of the Royal Commission on Maritime Claims* (Ottawa1926) and E.R. Forbes, *The Maritime Rights Movement, 1919-1927: A Study in Canadian Regionalism* (Montreal, 1979).

[14] See Harvery N. Lethwick, 'Regional Development Policies: Context and Consequences,' in William J. Coffey and Mario Polese, eds., *Still Living Together. Recent Trends and Future Directions in Canadian Regional Development* (Montreal 1987), 126.

[15] See Brett Fairbairn, 'A Preliminary History of Rural Development Policy and Programmes, 1945-1995,' (New Rural Economy),14.

[16] Anthony C.S. Careless, *Initiative and Response. The Adaptation of Canadian Federalism to Regional Economic Development* (Montreal, 1977), 110.

[17] This was later changed to Agricultural and Rural Development Act, though still known as ARDA.

[18] See, T.N. Brewis, *Regional Economic Policies in Canada* (Toronto, 1969),122-32.

[19] There is a rich literature on the underdevelopment of Atlantic Canada. One of the best reviews of that literature can be found in Eric Sager, 'Dependency, Underdevelopment and the Economic History of the Atlantic Provinces,' *Acadiensis* 17 (1) (Autumn 1987): 117-36.

[20] Donald Savoie, *Regional Economic Development. Canada's Search for Solutions* (Toronto, 1986), 24-6. Newfoundland was not included as one of the regions.

[21] See Janine Brodie, *The Political Economy of Canadian Regionalism* (Toronto 1990).

[22] See Brodie, *The Political Economy of Canadian Regionalism*, 156 and Fairbairn, 'A Preliminary History of Rural Development Policy and Programmes, 1945-1995,' 14.

[23] On this point, see Paul Phillips, 'A Post-Mortem on Regional Policy in Canada,' *Acadiensis* (21) (1) (Autumn 1991):191-99. Throughout the 1960s, the federal gov't also sought to develop human resources. It set up manpower training as well as mobility schemes. The Technical and Vocational Training Assistance Act (TVTA) called for agreements to be signed with each province for technical training of youths or for adult re-training. Essentially, the agreements enabled provincial governments to construct training and

vocational schools, as well as to develop new manpower training and upgrading courses. The federal government followed with another manpower development initiative – the Occupational Training Act (OTA). This act included both manpower training and mobility measures designed to deal with the country's structural unemployment.

[24] For a detailed discussion for regional development in the 1960s and 1970s, see Donald J. Savoie, *Regional Economic Development. Canada's Search for Solutions* (Toronto,1986).

[25] Clyde Weaver and Thomas I. Gunton, 'From Drought Assistance to Megaprojects: Fifty Years of Regional Theory and Policy in Canada,' *The Canadian Journal of Regional Science* 5 (1): 2-37.

[26] Weaver and Gunton, 'From Drought Assistance to Megaprojects: Fifty Years of Regional Theory and Policy in Canada,' Brodie, *The Political Economy of Canadian Regionalism*, and Fairbairn, 'A Preliminary History of Rural Development Policy in Canada, 1945-1995.

[27] See T.N. Brewis, *Regional Economic Policies in Canada* (Toronto, 1969), 92-4.

[28] On this point, see James Bickerton, *Nova Scotia, Ottawa, and the Politics of Regional Development* (Toronto 1990).

[29] For a fuller discussion, see Thomas Courchene, *Equalization Payments: Past, Present, and Future* (Toronto, 1984), and Ralph Mathews, *The Creation of Regional Dependency* (Toronto, 1983).

[30] Donald J. Savoie, 'Rural Redevelopment in Canada: The Case of Northeast New Brunswick,' *Journal of Rural Studies* 5 (2): 185-97. For a discussion of regional development initiatives, see Donald Savoie, *Regional Economic Development, Canada's Search for Solutions*. Second Edition (Toronto, 1992).

[31] *Atlantic Community Vision - Volume 2 - Issue 2 / Spring 2002.*

[32] An electronic version of the Throne Speech can be found at: www.sft-ddt.gc.ca/sft.htm

[33] J.D. House, 'The New Regional Development: Is Rural Development a Viable Option in Newfoundland and Labrador,' *Newfoundland Studies* 17 (1) (2001): 11-31.

[34] See, Noel Iverson and D. Ralph Matthews, *Communities in Decline: An Examination of Household Resettlement in Newfoundland* (St. John's, 1968), Richard Gwyn, *Smallwood. The Unlikely Revolutionary* (Toronto, 1972), and Doug Letto, *Chocolate Bars and Rubber Boots: The Smallwood Industrialization Plan* (Paradise, Newfoundland, 1998).

[35] See, Economic Council of Canada, *Newfoundland From Dependency to Self-Reliance* (Ottawa, 1980), 22.

[36] *Community Matters: The New Regional Economic Development*. Report of Task Force on Community Economic Development, St. John's, 1996.

[37] House, *Against the Tide: Battling for Economic Renewal in Newfoundland and Labrador*, 6-7, 109

[38] Much of what follows comes from publications from The Center for Rural Entrepreneurship at the Rural Policy Research Institute (RUPRI) National Research & Policy Center with major support from the Kauffman Center for Entrepreneurial Leadership (KCEL) within the Ewing Marion Kauffman Foundation of Kansas City. The Center is an outgrowth of the Rural Entrepreneurship Initiative formerly supported by KCEL, the National Rural Development Partnership, Partners for Rural America and the Nebraska Community Foundation. For more information on RUPRI, KCEL, the Rural Entrepreneurship Initiative or the Center visit www.ruraleship.org. *RUPRI Rural Equity Capital Initiative: Fund for Rural America Study of Nontraditional Venture Capital Institutions, Final Report.* Rural Policy Research Initiative at the University of Missouri, 2001.

[39] House, *Against the Tide: Battling for Economic Renewal in Newfoundland and Labrador*, see Chapter 9, 'Attempted Coup and New Regional Economic Development'.

[40] House maintains that he and the Commission were agents of change. For instance, the ERC wanted to use modern telecommunications and technology as a means of rural development – an initiative he considered progressive. Still, not surprisingly, House maintains that the ERC idea and philosophy has been adopted by the provincial government in its recent approaches to rural development. Dr. House has documented the work of the Commission in a recent book/autobiography from the University of Toronto Press. Not surprisingly, he lauds what he calls 'an integrated approach to balanced social and economic development' that the Commission adopted as it model. He admits that the ERC enjoyed some success, but it did not reach its goal of strengthening the provincial economy to ensure a prosperous future for its citizens. Even with this assessment, Professor House may be giving the Commission too much credit. He claims that the ERC was "undermined by the workings of government itself." He clearly lays the blame for the difficulties of the Commission at the feet of the "provincial bureaucracy, led by a powerful group of senior public servants that [House] refers to as the Old Guard [who acted] as a control apparatus that systematically resists change, undermines the innovative efforts of agencies such as the ERC, and [who was] highly successful at inducing successive political elites (Premiers and Ministers) ... to support its [the Old Guard's] approach." The Old Guard within government, he maintains, was a "powerful conservative force that perpetuates dependency." Moreover, in House's view, it "impeded efforts at transforming Newfoundland and Labrador from a transfer-driven to a flourishing market-driven economy." In fact, House claims that the provincial officials remained committed to the "urban-industrialized model of economic development that had been pursued so vigorously by Premier Joseph Smallwood in the fifties and sixties, and many had supported the Smallwood government's resettlement scheme for small communities," even though Smallwood had been defeated as Premier nearly 20 years earlier. Strangely enough, House notes that the province's rural development movement disagreed with the Royal Commission's recommendation that "The provincial government should establish Regional Development Boards with strong mandates to identify and encourage opportunities for economic development and employment creation throughout every region of Newfoundland," but, despite the opposition, the ERC went ahead and later implemented a community-based variant of this recommendation. See J.D. House, *Against the Tide: Battling for Economic Renewal in Newfoundland and Labrador* (Toronto 1999), especially ix-xi.

[41] In August 1998, the Province launched another ambitious initiative, the Strategic Social Plan, which in many ways paralleled the economic strategy. This was yet another attempt to provide a framework for integrating social and economic development as well as better co-ordinate the services delivery to the people. The Plan divided the province into six regions: Northeast Avalon, Avalon, Eastern, Central, Cormack-Grenfell, and Labrador, each with its own steering committees representing regional boards of health, education, and economic development, as well as representatives of federal, provincial, and municipal governments; other agency partners are also represented on the steering committees. The Strategic Social Plan is a new way of working together at the regional level. The framework was developed to reflect a long-term approach to addressing social and economic development, together, on a community and regional basis.

[42] Honourable Judy Foote, address to annual meeting of Newfoundland and Labrador Rural Development Council, news release, Government of Newfoundland and Labrador, 13 April 1996.

[43] Government news release, 27 September 1996.

[44] Government of Newfoundland news release, 11 December 2001 and 2 April 1996.

[45] A similar programme was launched in Saskatchewan in late 2002.

[46] Government news release, 27 September 1996.

[47] See, for example, *Rural Scotland: People, Prosperity and Partnership. The Government's Priorities for the Rural Communities of Scotland.* (Edinburgh, The Stationery Office, 1995).

[48] See Bruno Jean, 'Rethinking the Relationship between City and Country: Or Why Urbanities must support Rural Revitalization,' Paper presented at Conference on Rural Canada at the Saskatchewan Institute of Public Policy, November 2001.

[49] See, for example, news release, Government of Newfoundland and Labrador, speaking notes for Premier Roger Grimes, 26 October 2001.

[50] Government of Newfoundland and Labrador, *Final Report on the Renewal Strategy for Jobs and Growth*. March 2001.

[51] See, Government of Newfoundland and Labrador, *SSP Connections. A Bulletin About the Strategic Social Plan*, Volume 1, Issue 1, January 2002 to Volume 1, Issue 5, April 2003.

[52] David J.A. Douglas and Sanda J. Chadwick, 'Toward More Effective Rural Economic Development in Ontario.' School of Rural Planning and Development at the University of Guelph October-November 2000. Its findings concluded that: the majority of the smallest municipalities (less than 3,000 population) were not engaged in local economic development; rural municipalities appear to have very little connection or ongoing relationships with another major agent in rural economic development in Ontario, the Community Futures Development Corporations; only 38 per cent of Ontario's rural municipalities have a formal economic development plan in place; local business interests are the dominant public participants in the plan-making process; the vast majority of

rural municipalities actively engaged in local economic development with a very modest or no budget whatsoever; only five per cent of Ontario's rural municipalities have a full-time, designated economic development officer; public participation in the local economic development process, as conducted through rural municipalities, is very modest, conventional and limited.

[53] *Canadian Rural Partnership, Rural Canadians Survey 2001*, Report prepared by the Rural Secretariat Research and Analysis Group (Ottawa, 2002).

[54] Much of what follows comes from publications from The Center for Rural Entrepreneurship at the Rural Policy Research Institute (RUPRI) National Research & Policy Center with major support from the Kauffman Center for Entrepreneurial Leadership (KCEL) within the Ewing Marion Kauffman Foundation of Kansas City. The Center is an outgrowth of the Rural Entrepreneurship Initiative formerly supported by KCEL, the National Rural Development Partnership, Partners for Rural America and the Nebraska Community Foundation. For more information on RUPRI, KCEL, the Rural Entrepreneurship Initiative or the Center visit www.ruraleship.org. *RUPRI Rural Equity Capital Initiative: Fund for Rural America Study of Nontraditional Venture Capital Institutions, Final Report*. Rural Policy Research Initiative at the University of Missouri, 2001.

[55] *LEADER Magazine* n. 25 - Winter 2000/ 2001.

[56] www.torc.on.ca

[57] http://www.carleton.ca/cedtap/home/index_e.html

[58] Indian and Northern Affairs Canada, Backgrounder, 'The Labrador Inuit Comprehensive Claim,' 25 June 2001.

[59] See Bruno Jean, 'Rethinking the Relationship between City and Country: Or Why Urbanities must support Rural Revitalization,' Paper presented at Conference on Rural Canada at the Saskatchewan Institute of Public Policy, November 2001.

[60] See Bruno Jean, 'Rethinking the Relationship between City and Country: Or Why Urbanities must support Rural Revitalization,' Paper presented at Conference on Rural Canada at the Saskatchewan Institute of Public Policy, November 2001.

[61] Nearly 80 per cent of Canada's population lived in urban areas according to the 2001 Census Canada data, compared with only 30 per cent a century earlier. The dramatic decline in the rural population has had a profound impact on the way rural Canadians view themselves as well as the attitude of governments and urban citizens towards rural people and the issues they confront. Not surprisingly, rural citizens have been marginalised and rural issues have long ceased to be at the centre of public policy decisions.

[62] Moreover, rural is no longer easy to define. Those people who live near the larger metropolitan centres are a different 'rural' people than those who live in the remote communities. They also face a different set of issues than their rural brethren near the major urban areas. Similarly, there has been a remarkable change in the role that rural areas play in the Canadian economy. While the resource industries remain decidedly rural, both farming and fishing – the two economic activities most associated with rural Canada

– must seem to most urban folks to be in perpetual crisis, though urban Canada continues to express some empathy with their fellow citizens dependent on these sectors for their livelihoods.

Royal Commission on Renewing
and Strengthening Our Place in Canada

Options for Fiscal Federalism

— Robin Boadway

February 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

This paper presents an overview of the system of the federal-provincial fiscal arrangements as they have evolved in Canada. The system is evaluated from the point of view of the obligations set out in the Constitution, and from the point of view of the principles of a sound social and economic union. Problems of the various constituent elements are outlined, and their relevance for Newfoundland and Labrador are discussed. Various policy options for reforming the fiscal arrangements to improve the efficiency and equity of the social and economic union and the functioning of the federation from the province's perspective are proposed.

Prepared for the Royal Commission on Renewing and Strengthening Our Place in Canada. Extensive comments by internal and external reviewers on an earlier version of this paper were most helpful. The paper has been revised to take account of them, although differences in evaluating existing and proposed changes to the federal-provincial fiscal arrangements undoubtedly stand.

Contents

I. Introduction 271
II. The Fiscal Arrangements in Canada 271
    A. The Constitutional Context 272
    B. The Objectives of the Fiscal Arrangements 274
    C. The Components of the Fiscal Arrangements 277
III. Problems with the Fiscal Arrangements 284
    A. Equalization 284
    B. The CHST 289
    C. Other Issues 292
IV. Relevance for Newfoundland and Labrador 293
V. Options for Reform 295
    A. Vertical Balance 295
    B. The CHST 296
    C. Equalization 298
    D. Regional Development 304
    E. Tax Mix 304
    F. Process 305

Endnotes 307
References 309

I. Introduction

The Canadian system of federal-provincial fiscal arrangements has evolved considerably over the post-war period. The enormous growth of the welfare state in the early postwar period was a joint venture with the provinces delivering the social programs and the federal government providing conditional transfers. An Equalization system was put in place whose essential features remain with us today. And, the system of income tax harmonization evolved naturally from a situation in which the federal government was the sole income tax collector during the war. Gradually and persistently, the federation has become more and more decentralized. Provincial expenditures have grown rapidly relative to those of the federal government, and more important, provinces have become more and more responsible for financing their own spending programs. At the same time, provincial economies have not grown at the same rate. Some regions have enjoyed strong growth in their goods-producing sectors, and others have enjoyed the windfall gains of natural resource discoveries. These changes, along with the impact of globalization, have put enormous pressures on the fiscal arrangements. The province of Newfoundland and Labrador has much at stake in the outcome given its recent history of being the most dependent of all provinces on fiscal transfers. Now that the prospects of the province are finally turning around, new issues arise as to how suitable are the fiscal arrangements for facilitating resource-led growth.

The purpose of this paper is to provide a review of the fiscal arrangements with a view to their suitability for achieving the objectives of the federation — the so-called social and economic union — both from the point of view of Canada as a whole and from the point of view of Newfoundland and Labrador. Our objective is to evaluate the current arrangements, and where appropriate to suggest suitable reforms.

We begin with a summary of the current fiscal arrangements. The objectives of the fiscal arrangements as set out by the Canadian Constitution, as enunciated in federal-provincial agreements, and as generally accepted by economists and policy experts are used to set the context for a description of the arrangements. Then the various problems that exist with the current arrangements are outlined. The relevance of these problems for Newfoundland and Labrador is discussed. Finally, various policy options for reform of the fiscal arrangements are proposed and evaluated.

II. The Fiscal Arrangements in Canada

The fiscal arrangements between the federal government and the provinces contain a variety of elements that taken together address a number of objectives.[1] It is worth at the outset summarizing what those objectives are, and how they have evolved over the postwar period. Since the objectives are not spelled out explicitly in either the Canadian Constitution or in legislation, and since they are ultimately political in nature, different observers may take different views about them. Before offering what seems to me to be a reasonable set of views that are broadly consistent both with the manner in which the system is designed and with the accepted principles of fiscal federalism, it is useful to begin by setting out the constitutional context that should undoubtedly inform the objectives and the practice of fiscal federalism.

A. The Constitutional Context

There are various sections in the Constitution that have a bearing on the fiscal arrangements, and some of these are more important than others. At the core of fiscal federalism is the assignment of legislative responsibilities, which are mainly set out in Section 91 for the federal government, Sections 92-93 for the provinces, and Sections 94-95 for concurrent responsibilities.

Of particular relevance in the case of the provinces are two elements. The first is the exclusive provincial legislative responsibilities in health, education, and social services, and the second is the assignment to the provinces of the management of non-renewable resources in Section 92A, as well as affirmation of their right to tax resources in any manner they see fit. The former of these elements implies that the provinces are the main providers of social programs involving public services, while the federal government is largely restricted to social programs that involve transfers, such as employment insurance, and transfers to the elderly, to families and to children. The fact that such social programs comprise a significant proportion of program spending at both levels of government underlines the importance of redistributive equity as an objective of government policy. The latter of these involving resource management and taxation is the source of much of the inter-regional conflict that animates the Canadian federal system. Taken together — the joint responsibility for various aspects of redistributive equity, and the provincial 'ownership' of natural resources within their borders — these elements account for most of the contentious issues that afflict our federal system, and that are of particular relevance to Newfoundland and Labrador.[2]

With respect to the federal government, by far the most important of their powers is the one that is the least explicit — *the spending power*. It is this power that enables the federal government to make transfers of all sorts, which constitute the bulk of federal program spending. Federal spending on goods and services is largely non-controversial from a federalism point of view. Transfers to provinces are much more controversial both with respect to the magnitude and the form of the transfers. While there seems to be some consensus that this use of the spending power is constitutional,[3] there is nonetheless ongoing concern of a political nature as to its rationale. Until recently the main concern of the provinces revolved around the conditional nature of some federal-provincial transfers, especially where the conditions applied in the major social program areas in exclusive provincial jurisdiction.

In the past several years, provincial concern has also emerged over the use of the federal spending power simply as a means of transferring revenues to the provinces. Canada, like virtually all federations, is characterized by a *vertical fiscal gap*: federal revenues exceed what are required to finance federal program spending, with the excess being transferred to the provinces in one form or another.[4] Over time, the size of the vertical gap has gradually decreased implying that provinces have gradually become more and more self-sufficient. But in recent years, there has been growing concern over whether, in addition to the existence of the vertical gap, there is also some imbalance in the vertical relationship. The concept of a *vertical fiscal imbalance* (VFI) — which is distinct from that of a vertical fiscal gap[5] — is an ambiguous one. Roughly speaking, a VFI exists to the extent that the size of federal-provincial transfers are not compatible with the amount of tax room the federal government is occupying relative to its own spending requirements. There has been a claim from the provinces — most forcefully put by the Séguin Commission — that the size of federal transfers is too small in the sense that provincial deficits and federal surpluses are projected to rise over time under the existing set of policies. This problem has gained prominence since the federal government unilaterally made significant cuts in cash transfers to the provinces as part of their deficit-reducing measures of the early 1990s. This has allegedly exposed one of the problems of a vertical fiscal gap: it is said to leave the provinces vulnerable to unilateral and unannounced changes by the federal government.

There are political and economic arguments for a vertical fiscal gap (at least one that does not entail a VFI), as discussed below. However, for now it is worth noting the constitutional rationale (as opposed to the constitutional authority, which lies elsewhere) for the federal government engaging in federal-provincial transfers, some of which have conditions attached. It can be found mainly in the two parts of Section 36, which set out the principles governing the federal interest in influencing the provincial delivery of social programs. This section is of utmost importance for our discussion. Section 36(2) is the more familiar and less controversial part. It commits the federal government 'to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.'

The potential import of Section 36(1) has been much less recognized in the past, despite the fact that it speaks directly to the conditionality of transfers. It reads as follows:

> *Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to*
>
> *(a) promoting equal opportunities for the well-being of Canadians;*
>
> *(b) furthering economic development to reduce disparity in opportunities; and*
>
> *(c) providing essential public services of reasonable quality to all Canadians.*

Two aspects are relevant for our purposes. The first is that items (a) and (c) clearly enunciate the interest the federal government has in redistributive equity over and above what it can achieve using its own tax-transfer system applying to individuals. The promotion of equal opportunity and the provision of essential public services of reasonable quality necessarily involve the important public services in the areas of health, education and welfare. Since these are the legislative responsibility of the provinces, the main feasible way that the federal government can fulfill this constitutional mandate is via the spending power. Alternative mechanisms, such as legislative disallowance, federal-provincial negotiation, and moral suasion, are either more intrusive or less effective than the use of the spending power. The second aspect is also especially relevant for this Royal Commission. Item (b) refers to furthering economic development to reduce disparities in opportunities. To the extent that the development of offshore oil and gas, hydroelectric power generation and major mineral deposits constitute such types of economic development, it is reasonable to expect the federal-provincial fiscal arrangements to facilitate them.

The system of fiscal transfers taken as a whole addresses these federal constitutional obligations. There are also other political economy arguments supporting these and other objectives of the fiscal arrangements. A summary of them is as follows.

B. The Objectives of the Fiscal Arrangements

The broad objective of the federal-provincial fiscal arrangements can be put succinctly: They serve to facilitate the decentralization of responsibility to the provinces while at the same time maintaining the integrity of national objectives. To appreciate what is at stake, it is important to recount the case for decentralization as well as the national objectives that are served by the fiscal arrangements.

1. The Case for Decentralization

Decentralization is obviously a constitutional requirement in the sense that the provinces have exclusive legislative responsibility for the delivery of very important health, education and welfare services, as well as for civil and property rights and other items of purely provincial and local interest. As well, they share responsibility in areas of pensions, immigration, agriculture, and the environment. Nonetheless, legislative responsibility is not the be-all and end-all since the federal government can influence provincial legislative outcomes. Therefore, the case for decentralization must be made if only as a way of defining the limits of federal intervention.

The economic argument for decentralization is largely one of efficiency, although notions of community, language and culture may well augment it.[6] Provinces are better able to cater public programs to local needs and preferences. Innovations in program design are likely when several provinces are involved in providing services. Inter-provincial competition makes provinces most accountable and cost-effective. Managerial efficiencies are also possible the more decentralized is program administration. Lower-level managers are better able to monitor and control the quality of program delivery. It is now widely accepted throughout the world, even in unitary-type nations, that decentralization improves the efficiency and effectiveness of the delivery of public services to local persons and business, and of transfer programs that must be targeted using discretionary means. It is therefore not surprising that the kinds of services that are delivered by provinces in Canada are also delivered by sub-national jurisdictions in other OECD countries.

2. National Objectives and the Limits to Decentralization

At the same time, there are limits to decentralization. Inter-provincial competition can be detrimental is if it is used simply to provide fiscal incentives to attract economic activity from other provinces, or if it is used to provide an incentive to the activities of a province's own residents and businesses. For some items, the scope of benefits is nationwide rather than provincial, such as the case of national public goods like defense and foreign affairs. As well, there may be economies of scale associated with some programs that make it more efficient to deliver them nationally. This is especially true of the administration of broad-based taxes and transfers. However, the most important issues in designing the fiscal arrangements arise from the ways in which provincially legislated programs might impinge on national objectives. Apart what one finds in Section 36, the Constitution does not provide a comprehensive statement of national objectives. The fiscal federalism literature emphasizes three important national objectives of an economic nature that might justify the federal government using the fiscal arrangements to influence provincial policies.

1. *Efficiency in the Internal Economic Union.* This requires that labour, capital, goods and services be able to move across provincial boundaries both unfettered and undistorted by provincial policies. Like all economic objectives, this one is not absolute: there may be legitimate social and political objectives served by provincial policies that interfere with inter-provincial trade, such as language policies, cultural policies, and policies that foster provincial social and development objectives. Achieving efficiency in the internal economic union involves measures of both *negative integration* and *positive integration*. The former entails proscriptions on provincial behaviour that distorts inter-provincial flows or discriminates against non-residents. The latter involves measures, such as tax, spending and regulatory harmonization, that facilitate inter-provincial flows.
2. *Fiscal Equity.* This is the application of the notion of horizontal equity — like persons ought to be treated alike by the public sector — to a federal setting. This is based on the idea that citizenship entitles all persons to be 'counted' equally from the point of view of government policy. In a federal context, horizontal equity would require that like-persons be treated equally by both the federal and provincial levels of government wherever they reside. In its strictest version, horizontal equity conflicts with the principle of federalism since it would require that all provinces adopt identical policies. Instead, the weaker notion of fiscal equity is prescribed: provinces should have the fiscal potential to ensure that all persons be treated comparably across the nation (cf. Section 36(2)). The decision as to how far fiscal equity should deviate from horizontal equity then amounts to the same thing as how decentralized the federation should be. In Canada, we have evolved to a situation where the extent of decentralization is amongst the highest in the world, but at the same time fiscal equity remains an objective.
3. *Vertical or Redistributive Equity.* This refers to the pursuit of a more egalitarian society, and can take many forms (some of which are hinted at in Section 36(1)). It could take the form of redistribution from the better-off to the less well-off in society. It could involve equality of opportunity: an ex ante form of redistribution. Or, it could take the form of social insurance: redistribution from the lucky to the unlucky. Instruments used for redistributive equity purposes range from the income tax-transfer system to more targeted transfers to in-kind transfers (e.g., health, education, housing) to social insurance programs (unemployment insurance, health insurance) to job creation and even regional development programs. Provincial fiscal programs are extremely relevant for redistributive equity purposes, since many of the instruments used for this purpose

are in the hands of the provinces. The issue for fiscal federalism concerns the extent to which national standards of redistributive equity should apply: to what extent is the nation the relevant sharing community as opposed to the province?[7] This is obviously a matter of consensus, but one with far-reaching consequences. Presumably, national and provincial notions of redistributive equity coincide to some extent. The greater is the consensus for the nation being the sharing community, the more might the federal government intervene in influencing the structure of provincial social programs.

There will inevitably be disputes about the weight of these national objectives in defining the fiscal arrangements, and therefore the extent to which one advocates decentralization of provincial responsibilities, especially over social program design. At the same time, the three main objectives are not fundamentally in conflict. One can advocate a federal role in achieving greater efficiency in the internal economic union without buying into a federal role in equity. Perhaps more important, one can advocate fiscal equity among provinces while at the same time treating provinces as the relevant community for the purposes of defining vertical equity. In this case, Equalization would be the primary goal used by the federal government to achieve equity. The more consensus there is for the nation being the relevant sharing community for redistributive equity purposes, the most important becomes the spending power as a national policy instrument.

One further point that relates to the mandate of this Royal Commission should be stressed. The main purpose of the fiscal arrangements, following the principles set out in Section 36, involves ensuring an adequate level of basic public services in all provinces. Transfers to the provinces should be seen primarily in that light. They should not be seen either as substituting for transfers to individuals as a means of enhancing their private incomes and thus their access to market goods. Nor should they be assessed in terms of their potential for regional economic development, except to the extent that good public services contribute to that goal. This is important because some observers have a tendency to judge transfers to the have-not provinces as being analogous to welfare schemes for low-income persons, and to base their policy proposals on that view.

3. Technical Diversion on Fiscal Equity

Since the principle of fiscal equity is critical to the design of the fiscal arrangements, it is worth digressing to mention the circumstances in which it might be violated in a federation. (This discussion is somewhat technical and can be skipped without losing the thread of argument.) As mentioned, fiscal equity is based on the notion of horizontal equity — the ideal that like-persons be treated alike by the fiscal system. The notion of net fiscal benefits (NFBs) has been developed to characterize horizontal equity in a federation. The NFB a person receives from the government is the difference between the value of public goods and services and the tax liability imposed on the person. Given the importance of redistributive activities of governments, this NFB will typically be positive for lower-income persons and negative for higher-income persons. Horizontal equity applies among provinces if persons of a given real income level obtain the same NFBs in all provinces. Differences in NFBs arise from three basic sources: differences in needs, differences in per capita source-based revenue sources (e.g., natural resources), and differences in residence-based revenue sources.[8] In the first case, if provinces differ in the proportions of their population to whom public services are directed, they will differ in the per capita expenditures required to satisfy those needs. In the second case, if they differ in their endowment of natural resources, they will be able to provide a given level of public services at lower tax rates to their residents. The third case of differences in residence-based revenue sources, such as income, payrolls, or sales, is subtler. These will give rise to NFB differences to the extent that they are used in a redistributive way. For example, if incomes were taxed on a proportional basis to finance public services that are equally available to all residents, those with higher incomes will obtain negative NFBs, and vice-versa. Moreover, persons in higher average income provinces will be able to provide a given level of public services at lower tax rates than those in lower income provinces, implying higher NFBs for all persons in the former. By the same token, if residence taxes were entirely benefit-based, they would lead to no NFB differentials between provinces, and no equalization would be called for to undo them.

C. The Components of the Fiscal Arrangements

The various components of the fiscal arrangements can be seen as contributing to both the constitutional and the political economy objectives of the Canadian fiscal federalism system. One can classify the fiscal arrangements into three main components: the system of federal-provincial transfers, the tax harmonization system, and the various inter-governmental agreements that inform and moderate government policy choices.

1. Federal-Provincial Transfers

Two components make up the bulk of federal transfers to the provinces — Equalization and the Canada Health and Social Transfer (CHST). Equalization payments are made to all provinces that have tax capacities below a national standard. Currently, all provinces except Alberta and Ontario are 'have-not provinces' in receipt of Equalization payments. In 2002-03, total Equalization transfers were $10.348 billion, of which $1.019 billion accrued to Newfoundland and Labrador. Equalization entitlements are calculated using the representative tax system (RTS) approach. Thirty-three provincial revenues sources comprising most of those used by the provinces are included. These range from broad-based taxes like individual and corporate income, sales, payroll and property taxes, to specific taxes like excise taxes and capital taxes, to the various forms of resource revenues, to miscellaneous revenues like user fees. The basic procedure is as follows. For each revenue source, a common national tax base is defined, which is meant to be representative of the bases the provinces actually use. Then, a national average tax rate on each base is calculated as the ratio of total provincial revenues to the aggregate of the base over all 10 provinces. A province's per capita equalization entitlement for a given revenue source is then calculated by multiplying the national average tax rate by the difference between the per capita average tax base across five 'standard' provinces and the province's own per capita tax base. The five standard provinces include the middle income ones — British Columbia, Saskatchewan, Manitoba, Ontario and Quebec. These entitlements are then summed over all 33 revenue sources to give the province's total per capital equalization entitlement. For those provinces with a positive total entitlement (the 'have-not' provinces), a transfer is made from the federal government's general revenues in an amount equal to the total per capita entitlement times the province's population.

There are a number of other features of Equalization that should be mentioned. The transfers are unconditional, implying that the provinces can use them as they see fit. A number of special provisions apply. There is a ceiling applying to Equalization transfers as a whole and a floor applying to each province. Roughly speaking, the ceiling precludes total Equalization transfers from rising more rapidly than the percentage change in GDP. In the event that entitlements increase more rapidly than that, payments of all provinces are scaled back proportionately. The ceiling has been binding in several different years, most recently in 2000-01. The floor prevents any given province's per capita Equalization entitlement from falling in any given year by more than a prescribed amount, currently 1.6 per cent of the per capita value of the equalization standard. This occurs if a province has a sudden increase in one or more of its tax bases, and has applied for Newfoundland and Labrador only in 2001-02. There are some circumstances in which full Equalization entitlements are not applied. If one province constitutes at least 70 per cent of any given revenue source, only 70 per cent of the province's base is included in determining its entitlements from that source. This implies, roughly speaking, that the province loses only 70 per cent of the increase in revenues from these bases, rather than 100 per cent in the absence of the special provision. This so-called *generic solution* is intended to preclude the province from having an incentive to reduce its tax rate on the revenue source: the so-called *rate tax-back* problem. The same solution has been provided as an option to the provinces of Nova Scotia and Newfoundland and Labrador as part of the Nova Scotia and Atlantic Accords dealing with offshore oil and gas revenues. Whether a 30 per cent saving in Equalization tax-back is sufficient to avoid the disincentive effects associated with exploiting such resources is a matter that we return to later. In the case of some revenue sources, the bases are not calculated as described above. For example, the individual income tax base is effectively disaggregated into several bases, each one associated with a different income bracket. In the case of the property tax, the base does not correspond with that used by the provinces, which tends to be assessed property values. Instead, the standard base is the result of a rather complex calculation in which provincial capital stock data is adjusted by factors reflecting personal income, the degree of urbanization and demographic shifts. Some bases are defined very differently from those used in some provinces, such as the sales tax, whose base differs widely across provinces. And, some provincial revenue sources, such as lotteries and other gambling revenues, are not included in the formula.

The Equalization program contributes to the commitment of Section 36 of the Constitution by making it possible for provinces to have access to some national standard of per capita revenues, were they to use comparable tax rates. In so doing it contributes to the goal of fiscal equity by providing provinces with the potential to undertake comparable levels of per capita spending if they so choose. At the same time, the absence of conditions implies that the provinces are free to raise revenues as they see fit, and to use those revenues as they see fit, thereby facilitating the principles of decentralized decision-making. As a side benefit, Equalization is said also to provide some insurance to the provinces in the face of changes in their own tax bases. However, given that a province's Equalization entitlement depends not only on its own tax base but also on that of the five-province standard and the national average tax rate, it is not clear that on balance provincial revenues are stabilized. On the contrary, there is compelling evidence that the system actually destabilizes the revenues of have-not provinces.[9]

The CHST is in principle simpler that Equalization, but in practice it is more contentious because of the way it is structured. Unlike Equalization, the CHST is available to all provinces on comparable terms. The CHST evolved from two earlier transfer programs — Established Programs Financing (EPF) and the Canada Assistance plan (CAP) — and as such it took on some features of these schemes. Following the EPF system, the Department of Finance treats the CHST as being composed of two components — a tax-transfer component and a cash component. The tax-transfer component includes the current value of equalized income tax points that has been transferred to the provinces when the EPF was put in place in 1977. The total cash component is now determined at the discretion of the federal government. It has committed to increase the total cash transfer from $18.3 billion in 2001-02 to $21.0 billion in 2005-6. By the same time, the tax-transfer component will be $19.3 billion by 2005-6. The CHST is allocated among the provinces in equal per capita amounts after accounting for differences in values to the provinces of equalized tax points. (Since equalization only applies to the have-not provinces, equalized tax points are worth the same to all have-nots, but more to the two other provinces.)

Like the EPF and CAP that it replaced, the CHST is intended to share in the provincial costs of health, social services and post-secondary education, and the federal government notionally divides the CHST into those three components. However, the funds are fully fungible and the attributed shares bear little relation to the actual provincial shares of spending in those areas. The transfers are not completely unconditional. To be eligible for their full entitlements, provincial public health insurance systems must abide by the five general criteria set out in the *Canada Heath Act* 1985 (public administration, accessibility, comprehensiveness, universality and portability) as well as the specific admonitions not to allow extra billing or user fees. As well, welfare systems must not have discriminatory residence requirements. These sorts of conditions can be rationalized as reflecting the federal government's social policy commitments set out in Section 36(1). From a political economy perspective, they contribute to efficiency and equity in the internal economic union, and reflect at least a political consensus about minimum standards of redistributive equity or national sharing that should apply to health insurance programs.

Taken together, Equalization and the CHST (financed out of federal general revenues) represent almost the full extent of the extent of the vertical fiscal gap in the Canadian federation. A vertical fiscal gap serves various purposes in a federation. It facilitates the extensive decentralization of expenditure responsibilities to the provinces while at the same time maintaining a harmonized tax system and one that embodies national standards of efficiency and equity. It contributes to the equalization responsibilities of the federal government in two ways. First, by limiting the decentralization of tax responsibilities, it reduces the extent of differential tax capacities across provinces. Second, the form of the fiscal transfers directly contributes to equalization. In fact, the CHST is in a sense an ideal system of revenue equalization to the extent that it provides equal per capita transfers financed by a nationwide tax system. That is, it implicitly equalizes the have-not provinces up and the have-provinces down, complementing the formal Equalization system. Finally, the vertical fiscal gap provides an instrument — virtually the only instrument — by which the federal government can exercise its responsibilities for national equity and efficiency in areas of provincial legislative authority (e.g., under the authority of Section 36(1)). Of course, this latter role of federal transfers is controversial, and has the potential for excessive federal intrusion into provincial areas of responsibility. That is why some commentators, such as the Séguin Commission, have suggested reducing the size of the vertical fiscal gap to Equalization alone.

2. Tax Harmonization

Canada has a system of tax harmonization comprising some elements that are enviable and others that are incomplete or even non-existent. The enviable elements are the systems of Tax Collection Agreements (TCAs) involving individual and corporate income taxes. The incomplete system is in the sales tax area. For the rest of the tax system, there is no harmonization. Tax harmonization contributes to the efficiency of the internal economic union as well as to the administrative integrity of the tax system. It can also lead to a more equitable national tax system by making the basis on which persons are taxed more uniform across provinces. The following summarizes the main features of the system of tax harmonization in Canada.

Harmonization of the personal income tax system (PIT) is accomplished by bilateral TCAs between the federal government and agreeing provinces, which include all provinces except Quebec. The system has been in a process of transition, so we describe the elements of the new system to which provinces have been moving. Provinces who choose to participate in PIT harmonization agree to abide by the federally-defined tax base and to have their revenues collected centrally by the Canadian Customs and Revenue Agency (CCRA). In return, they are allowed within limits to set their own rate structures and province-specific nonrefundable tax credits. In addition, provinces are allowed to impose their own rebates, surtaxes and refundable credits provided they are not discriminatory or administratively complicated. Provinces also agree to a common principle for allocating taxable income among themselves — basically in accordance with the province of residence of taxpayers on Dec. 31 in the tax year. The result is an income tax system among the nine participating provinces that has a harmonized base, and that combines provincial preferences for redistribution with that of the federal government. The extent to which federal redistributive norms apply, and presumably the willingness of the provinces to continue to participate, depends on the share of the income tax room occupied by the federal government.

The corporate income tax (CIT) is harmonized according to very similar principles. Agreeing provinces — all except Alberta, Ontario and Quebec in this case — sign a TCA with the federal government that binds them to abide by the federal tax base and to have their taxes administered by the CCRA. They are allowed to set their own corporate tax rates as well as non-distorting credits, rebates and surtaxes. The allocation formula is somewhat more complicated owing to the fact that many corporations operate simultaneously in more than one province. A province's allocation equals the average of its share of the revenues and of the payroll of the corporations within its boundaries. In the case of the CIT, a much higher proportion of taxable income comes from non-participating provinces. Although one might expect that would result in a more diverse set of provincial corporate tax systems, in practice they are surprisingly similar, and all abide by the same allocation formula. No doubt this owes much to the fact that the system evolved from one in which the federal government was sole collector of the CIT.

While the system of income tax harmonization is a model one, sales tax harmonization is much less complete, and varies considerably across provinces. Of the nine provinces with general sales tax systems, five have retail sales taxes (RST) that are completely un-harmonized with either the federal goods and services tax (GST) or with each other. Moreover, these RSTs are plagued by inefficiency due to their narrow bases relative to the GST and to the fact that they unavoidably tax business inputs. The remaining four provinces harmonize their sales taxes with the GST in two different ways. Quebec operates the Quebec sales tax (QST) in a manner unique among federations. It harmonizes its base closely with the federal government and structures the tax as a multi-stage tax similar to the GST. Two features distinguish it from the system used in the other provinces. First, Quebec is allowed to set its own general rate of sales tax alongside the federal rate. The QST rate then consists of the sum of the provincial and federal tax rates. Second, the Quebec government administers the QST on behalf of both itself and the federal government. There are special provisions in the QST to ensure that, in the absence of border controls, imports to the province are fully taxed and exports are zero-rated (i.e., sales to non-resident buyers are not taxed and tax credits are given on previous business purchases in the province). The taxation of imports into the province is accomplished not by taxing purchases by resident from non-resident firms (since the latter are not necessarily registered as Quebec taxpayers), but by deferring sales tax liabilities until the importing firm makes the first sale. (Consumers are, however, liable to pay the QST on purchases made outside the province for consumption within Quebec, as is the case with all other provincial sales taxes.)

The remaining provinces — New Brunswick, Newfoundland and Labrador, and Nova Scotia — participate in the harmonized sales tax (HST) with the federal government. The HST is a fully harmonized tax that takes on exactly the same structure as the GST in other provinces, but has a common rate of 15 per cent covering the 7 per cent GST rate plus a further 8 per cent for the participating provinces. Unlike the QST, the CCRA administers the HST. Moreover, the provinces have no individual discretion over their own rate, although they could agree in common to change the rate. Similar principles apply to border transactions with buyers or sellers outside the three provinces: exports are zero-rated and taxes on imports are deferred until the first sale within the three-province region occurs. Revenues are allocated among the three provinces in proportion to their final consumption. Effectively, the HST system is a revenue-sharing scheme that achieves harmonization at the expense of the discretion of the provinces.

Given the diversity of federal and provincial sales tax systems, it remains an open question as to how additional provinces could participate in a sales tax harmonization scheme. The larger ones seem unlikely to agree to join an HST-type arrangement, given the absence of discretion over tax policy. At the same time, it is not at all clear that extending a QST-type arrangement to other provinces would be workable, not just from the point of view of decentralized administration but also with respect to discretion over tax rates. The more different provincial tax rates there are, the more complicated it would be for administrators and taxpayers alike to comply with the system. There are no good precedents for operating fully decentralized value-added tax systems in a decentralized federal setting with taxes operating at both levels. The closest analogue might be the European Union, but in that case there is no central government tax.[10]

No provincial taxes other than the income and sales taxes are harmonized at all. This is especially problematic for taxes that impinge on cross-border transactions or influence investment flows. Particularly important among these are taxes on businesses, including the plethora of different resource levies imposed by the provinces; capital taxes, which vary from province to province; and non-residential property taxes that account for more provincial revenue than the CIT. The Report of the Technical Committee on Business Taxation (Department of Finance, 1997) identified non-harmonized provincial taxes on businesses as a major source of tax distortion in the Canadian economy.

3. Inter-Governmental Agreements

A final component of the fiscal arrangements consists of agreements negotiated between the federal government and the provinces. These potentially constitute an alternative to the federal spending power as a means of ensuring that national objectives are taken into account in programs legislated by both levels of government. Indeed, some have even suggested that the provinces alone might come to collective agreements in defining and implementing national goals (e.g., Courchene, 1996). However, virtually all substantial inter-governmental agreements affecting the federal fiscal system include the federal government as a signatory.

For our purposes, the two most important federal-provincial agreements are the Agreement on Internal Trade of 1995 (AIT), and the Social Union Framework Agreement of 1999 (SUFA). These agreements are complementary in the sense that the AIT focuses on the efficiency dimension of national policy objectives, while the SUFA focuses on national equity. As such, they affirm the principles outlined above, but they do so in quite distinct ways. The AIT is the analogue of an international free trade agreement adapted to a federal setting in which labour mobility is relatively more important. Basically, the AIT sets out rules governing the conduct of provinces where their policies are liable to have effects on the efficiency of the internal economic union. These include both negative and positive integration measures — those that discourage certain types of behaviour and those that encourage others, respectively. Thus, provinces are precluded from engaging in behaviour that discriminates against non-residents or that distorts the free flow of products and factors of production across borders. On the positive side, they have agreed to cooperate in harmonizing various policies, such as professional licensing, so as to reduce barriers to inter-provincial mobility. The AIT thus sets out to fill a void in the Constitution by committing the provinces to adopting policies that further efficiency in the internal economic union, an objective that seemingly commands widespread support.

The AIT illustrates both the strengths and weaknesses of relying on inter-governmental negotiation for achieving national objectives in a decentralized federation in which provincial policies have extra-jurisdictional consequences. The AIT exemplifies how unanimous agreement on substantive issues might be attained on matters where all jurisdictions have something to gain. After all, efficiency issues involve creating gains from trade that potentially benefit all provinces. At the same time, the limitations of the AIT are also instructive. First, despite the consensus by the provinces to commit themselves to what are relatively strong and constraining measures on their behaviour, the enforcement of the AIT commitments is largely toothless because of the absence of an effective and binding dispute settlement mechanism. Voluntary compliance seems to be inadequate, suggesting that some supra-provincial inducement — of which the spending power would be an example — might be required to ensure that the provinces will abide by the agreement. Second, the difficulty in consummating an effective agreement intended to bring efficiency gains across the federation underscores the fact that inter-governmental agreement is not likely to suffice as a means of achieving nation equity goals. By their nature, there would be gainers and losers across provinces, making unanimity a most unlikely outcome.

While the AIT with all its flaws is mainly intended to influence and constrain provincial government behaviour, the main significance of SUFA for our purposes is as a device for defining the role of the federal government in pursuing its social policy responsibilities in concert with the provinces. Indeed, the principles outlined in the SUFA reinforce many of the constitutional commitments of Section 36(1), specifically in section 1 of SUFA the commitment to, among other things:

> *Treat all Canadians with fairness and equity;*
>
> *Promote equality of opportunity for all Canadians;*
>
> *Ensure access for all Canadians, wherever they live or move in Canada, to essential social programs and services of reasonably comparable quality;*
>
> *Promote the full and active participation of all Canadians in Canada's social and economic life; and*
>
> *Ensure adequate, affordable, stable and sustainable funding for social programs.*

The SUFA also affirms the role of the federal spending power as an instrument that 'has been essential to the development of Canada's social union'. It anticipated the future use of the spending power in the social policy area, but stipulated that any new initiatives a) be implemented with the collaboration of the provinces in defining objectives, b) be introduced only if a majority of provinces agree, and c) allow provinces to determine the detailed program design. The agreement also deals with process matter, such as accountability, predictability and dispute settlement, but for our purposes the relevance of the SUFA is mainly in its confirmation of the joint federal-provincial interest in social policy matters and the important role of the spending power in achieving social policy objectives.

There are, of course, numerous other federal-provincial agreements in a myriad of individual areas, such as national child policy, immigration, and the environment. But in these cases, the agreements take the form of coordinating policies in areas where there is no real dispute about the joint responsibilities of the two levels of government.

To summarize briefly the message of this section, the fiscal arrangements are an integral part of the Canadian system of fiscal federalism. The form and extent of federal-provincial transfers and the system of tax harmonization and other federal-provincial agreements serve to facilitate the decentralization of fiscal responsibilities to the provinces while at the same time maintaining the integrity of the internal economic union. The Canadian federation is the most decentralized in the world. The provinces have legislative responsibility for providing the most important public services, and have considerable discretion in designing them to suit their residents' needs and preferences. They also have substantial revenue-raising responsibility, and occupy a relatively large amount of tax room compared with other federations elsewhere the world. Yet at the same time, the income tax system remains highly harmonized; the provinces are able to provide roughly comparable levels of public services; the levels of taxes and transfers are similar across provinces; and transactions across provincial borders are relatively free. There is a reasonable compromise between the benefits of decentralization that are central to an efficient federation, and the adherence to some basic national principles that flow from redistributive equity or community sharing at the national level. Most important, the federal government has a commitment to ensuring both fiscal equity across provinces and redistributive equity jointly with the provinces. The main concern for the federation is how lasting this favourable compromise will be, given the secular trend to greater and greater fiscal decentralization.

III. Problems with the Fiscal Arrangements

However admirable the design of the fiscal arrangements, they are not perfect. As the federation has evolved and become gradually more decentralized, some of the tensions in the system of fiscal federalism have become apparent. In this section, we review some of the general problems of the current system, especially those that are important for this Royal Commission. What is particularly relevant is the extent to which the system of fiscal arrangements is fulfilling the commitments set out in the two parts of Section 36. To that end, the discussion is arranged around the main components of the fiscal arrangements.

A. Equalization

Equalization is the backbone of the Canadian federal system. It is the instrument that facilitates fiscal decentralization, but it is also one that becomes increasingly fragile the more decentralized the federation becomes. The goal of Equalization is fiscal equity — to ensure that the provinces have the fiscal capacity to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. Absolute comparability is not attainable for various reasons. For one, the provinces undertake a wide variety of responsibilities and finance them in a wide variety of ways to meet the differing needs of their residents. Given the diversity of provincial fiscal policies and needs, the meaning of comparability is not clear-cut. Moreover, the provinces face very different physical and cost conditions. If it is more costly to provide public services in, say, remote areas, there will be a trade-off between efficiency and horizontal equity that will preclude absolutely equal access to public services from being achievable, or even desirable. Indeed, differences in the level and quality of public services may be greater between urban and rural areas within provinces than between comparably situated persons across provinces. As well, as with any redistributive program, Equalization inevitably brings with it adverse incentive effects that may temper the extent to which full fiscal equity can be achieved. There may be other objectives that are affected by Equalization, such as regional development, that may affect program design. And, perhaps the thorniest issue is the apparent contradiction between equalizing resource revenues on the one hand, and the provincial 'ownership' of natural resources hinted at in Section 92A on the other. Resolving all these issues necessarily involves a dose of value and political judgment.

These problems can be illustrated by listing a number of more important specific problems with the Equalization system, some of which are fundamental for our purposes.

1. Gross Versus Net Equalization

The Equalization system is a gross one that finances transfers to the have-not provinces out of federal general revenues, rather than a net one that finances transfers to have-not provinces by revenues obtained directly from the have-provinces. In such a net system, there is necessarily asymmetric treatment of have and have-not provinces, even if the system is otherwise perfect. Full fiscal equity cannot be achieved with the result that the have-provinces will have greater capacity to provide public services than the have-not provinces, although this is mitigated to the extent that federal general revenues come disproportionately from the have-provinces.

As with most problems with Equalization, the use of a gross rather than a net system is more important the more decentralized is the federation, and the more inherent inequality in fiscal capacity there is among provinces. If the decentralization of spending responsibilities is accompanied by a large vertical fiscal gap, the problem is considerably mitigated. For example, if the vertical fiscal gap is closed by equal per capita transfers to the provinces — as in the CHST case — tax capacities are partly implicitly equalized: general revenues raised from all provinces using a tax system that is geared to income is used to finance equal per capita transfers. In this sense, the CHST can be accurately described as a perfect system of net revenue equalization. However, as the extent of tax decentralization increases, so too does the fiscal inequity arising from a gross system. It is partly for this reason that the existence of a vertical fiscal gap can be an important aspect of the fiscal arrangements.

2. Tax Capacity and Needs Equalization

The Canadian Equalization system equalizes only for differences in revenue-raising capacity. Equalizing the ability of provinces to provide comparable public services at comparable tax rates would require both tax capacity and needs to be equalized. Many public programs are targeted at certain elements of the population (the ill, school age children, the disabled, etc.), so that the amount of spending needed to provide a given level of services will vary according to demographic composition. Needs-based equalization is common in some countries (e.g., Australia, South Africa). In principle, it can be implemented by a method analogous to the RTS. Given the speed with which the demographics of the country are changing, it would not be surprising to find that the same provinces that have below-average tax capacities also have above-average needs, since higher needs are often associated with lower current earning power.

This is particularly relevant to Newfoundland and Labrador. In 1996, the elderly dependency ratio — the population aged 65 and above as a proportion of the working age population 15-64 — was 16.2 in this province compared with 19.2 nationwide (Mérette, 2002). While the national rate is projected to increase to 38.5 by 2040, that for Newfoundland and Labrador will go to the astounding level of 56.0, significantly above all other provinces. (For example, it will rise to only 39.8 in Quebec, the largest have-not province and 36.1 in Ontario.) Given the extra costs that the elderly impose on public expenditures, especially health services, this divergence in dependency ratios points to sizeable differences in the per capita costs of providing reasonably comparable levels of public services across provinces.

It might be noted that in earlier years, there was an element of needs implicitly built into the fiscal arrangements, albeit in a rather inefficient way. Federal-provincial shared cost programs in welfare (CAP) and in health provided transfers directly related to actual expenditures in these areas. Once they were replaced with block funding, the needs element disappeared. There is no reason why a needs element cannot be incorporated into block grants, such as the Canada Health Transfer, rather than through Equalization.

3. Five-Province Versus National Average Standard

The have-not provinces are equalized to a standard consisting of the amount of revenue that could be raised at national average tax rates applied to the average per capita tax bases in the five standard provinces — all except Alberta and the four Atlantic provinces. The choice of the five standard provinces was not accidental. By eliminating Alberta, the bulk of oil and gas revenues fell outside the equalization system. While this is partly offset by excluding the four lowest-income provinces, on balance the five-province standard results in less Equalization than under a full ten-province standard.

This exacerbates the fiscal inequity between the have-provinces and the have-not ones to the extent that Equalization is reduced. As well, it especially results in very differing treatments of oil and gas revenues earned in Alberta and those earned in Equalization-receiving provinces, an issue addressed next. It is understandable why the federal government may not want to include Alberta oil and gas in the formula: after all, it has no direct access to resource revenues in the provinces. This is a problem that arises because of the gross nature of the Equalization system. To the extent that the system were a net one, the problem would not arise for the federal government. For example, if the vertical fiscal gap were filled not by equal per capita transfers, but transfers directly related to provincial tax capacities, an element of net Equalization could be achieved.

4. Treatment of Natural Resources

The treatment of provincial resource revenues is the Achilles heel of the Equalization system (and one that is fairly unique to Canada, since not all federations assign property rights to resources to sub-national governments). As alluded to above, part of the problem is that resource wealth is both the source of considerable inter-provincial disparity and also a revenue source to which the federal government has limited access. A gross equalization system necessarily treats resource revenues differently in the hands of a have-not province than a have-province. Given the absence of federal access to resource revenues, a gross system is doubly deficient: not only do the standard differences in treatment apply to have-not and have-provinces, but also there is no implicit undoing of that inequitable treatment via federal general revenues, since these do not include resource revenues. The problem is further exacerbated by the five-province standard, which as we have seen leaves Alberta oil and gas revenues unequalized.

In addition to these general problems, there are a number of other special problems that come up with resource revenues. These problems and their consequences for reforming the Equalization system have been explored in some detail in Feehan (2002).

Should Resources be Fully Equalized?

We have mentioned already the conceptual anomaly or conflict between the assignment of property rights to natural resources within their boundaries to the provinces and Section 36(2). There is a certain inconsistency between giving ownership on the one hand and taking it away on the other. One can react to this in different ways. On the one hand, one can take the view that there is no unconditional assignment of property rights to resources in the Constitution. That is, while it is true that the provinces have the authority by Section 92A to tax resources in any way they see fit, it is also true that the federal government has both unlimited power to tax as well as an obligation to provide full equalization. On the other hand, one can find ways of recognizing provincial resource ownership while at the same time fulfilling Equalization. The Economic Council of Canada (1982), following the analysis of Boadway and Flatters (1982), and more recently Feehan (2002) have suggested a so-called *narrow-based view of horizontal equity* as a way of avoiding the conflict. According to this view, provincial resource ownership and the revenues that that ownership entailed would be taken as accruing on behalf of provincial residents, comparable to their other sources of personal income. Equalization would then only entail bringing that income into the federal tax system, which involves equalizing only a proportion of it given by the average federal rate if income tax (e.g., 30 per cent). What is clear is that whatever remedy is used to address the conflict between Equalization and resource ownership, it involves non-economic principles.

Incentive Problems

Any system of redistribution can in principle give rise to incentive problems: recipients will have an incentive to change their behaviour in order to increase their transfers. In the Equalization system, this seems to be a problem mainly in the resource sector. The elements that go into determining Equalization entitlements for a have-not province include its population, its per capita tax base, the national average tax rate, and the average per capita five-province tax base. For revenue sources other than resources, it is reasonable to suppose that provinces have relatively little influence over any of these elements. However, with resources, there are two possible problems. One arises when a significant proportion of a given resource base is located in a single have-not province. In this case, the province will have a perceptible influence on the national average tax rate, and will therefore have an incentive to reduce it. This is the rate tax-back problem mentioned earlier that is addressed by the generic solution. This becomes operative only rarely.

The more serious problem is the *base tax-back problem.* Provinces can directly influence the rate of development of their resource properties, especially new ones, which implies that they can directly influence their own base for Equalization purposes. Given that an increase in the base for a have-not province causes entitlements to fall by the change in the base times the national average tax rate, this is a significant disincentive to develop the resource. For example, if the provincial tax rate were equal to the national average tax rate, the province would gain no net revenue from exploiting the resource. This is a significant disincentive that only applies to the have-not provinces. It was, of course, partly in recognition of this problem that what later became the generic option in the Equalization system was made available in the Nova

Scotia and Atlantic Accords (i.e., that only 70 per cent of offshore resource revenues would be included in the Equalization bases of Nova Scotia and Newfoundland). But, the same problem applies to all resource developments over which the provinces have direct control, and not just those that that would otherwise satisfy the requirements for the generic solution.

Given the objective of equalizing for differences in the ability to raise revenues from one's tax bases, it is not apparent how the base tax-back problem can be avoided without abandoning the purpose of Equalization. Since the incentives and equalizing effects are in direct conflict, there is a trade-off that seemingly can only be addressed by compromising both effects.

Deficiencies in the RTS Method when Applied to Resources

Resources are unlike other revenue sources in the sense that their cost of extraction can vary considerably. For some types of resources, revenues are obtained from royalties applied to the value of the resource extracted. Although royalties are intended to provide resource owners (i.e., the province) with a share of the rents, the tax bases are poor proxies for rents. To the extent that royalties are charged on the value of resources extracted, the rates of royalty that can be charged will be lower for high-cost resources than low-cost ones, since rents as a share of revenues will be higher for the latter. This implies that if a have-not province has higher-than-average costs of extracting resources, its tax capacity will be overestimated by the RTS method, and vice versa. This problem is made more pronounced to the extent that the province has to undertake infrastructure expenditures in order to make the resource accessible to resource firms, since these are part of the social costs of exploiting the resources.

Another problem that arises with resources is that some of the benefits can accrue to the province in a form other than revenues. An example of this might be hydroelectricity rents. Rather than collecting revenues from hydroelectric firms in the form of taxes, provincial governments may instead use hydroelectric facilities to provide cheaper electricity to its domestic residents and firms. This is not uncommon in the case where hydroelectric utilities are provincial public corporations. Of course, some of these lower prices will give rise to increased incomes to local producers, which then enter into the Equalization formula, and to that extent the problem is undone.

5. Other Problems with Equalization

There are a number of other specific problems that confront the current Equalization system. Since these problems are well known, we simply mention them here.[11]

1. *Property Taxes*. The procedure for determining entitlements to the property tax base does not accord with the standard procedure. Rather than actual property assessments being used, adjusted indicators of residential capital are used. Compared with the standard procedure, this procedure yields lower entitlements for provinces where the market value of real estate properties is relatively low.
2. *User Fees*. A general principle of equalization is that benefit taxes should not be equalized since they do not give rise to NFB differentials across provinces. On those grounds, one could argue that fees of various sorts need not be equalized. In practice, matters might not be so straightforward since user fees often cover only a part of

the costs of particular services, the remainder coming from general revenues (e.g., university tuition fees).

3. *Lotteries and Gambling Revenues*. These are becoming an increasing source of provincial revenues. From an economic perspective, they are essentially like excise taxes (at relatively high rates). However, they differ from other revenue sources in that their bases only become operative if gambling is legalized. This makes it difficult to construct a representative tax base among provinces that have differing standards of legalization of gambling. The ability of a province to control its own gambling revenue bases also implies that the base tax-back problem could be relevant.
4. *Ceiling*. The ceiling provision that restricts the rate of growth of total Equalization entitlements runs directly counter to the objectives of the program. As provinces become more self-sufficient, and as their expenditures grow more rapidly than GDP, it is natural to expect that the ceiling provisions will become more binding. Since their impact is mainly on the have-not provinces, the differential treatment of them relative to the have-provinces is enhanced.
5. *Transfers to Individuals*. To an economist, transfers are simply negative taxes. Transfers delivered through the tax system are implicitly equalized, at least roughly. However, those delivered outside the tax system, such as through provincial welfare systems, are not equalized. This works to the disadvantage of provinces with higher welfare caseloads, and detracts from the commitments set out in both parts of Section 36.
6. *Representative Tax Bases*. The integrity of the RTS system of Equalization depends upon being able to define representative tax bases that are comparable to those actually used by the provinces. In cases like the income taxes where harmonization applies, this is not a problem. However, where there is no inter-provincial harmonization, tax bases can diverge significantly, and there may be a tendency for greater diversity the more decentralized is revenue-raising responsibility to the provinces. This is particularly important where major tax bases take very different forms in different provinces, such as the case of sales taxes. This has led some observers to suggest radical changes to the Equalization system by, for example, replacing the RTS with a single measure of provincial fiscal capacity, such as provincial output or income. While these so-called *macro approaches* will certainly avoid the problems of defining representative tax bases, they suffer from the disadvantage of not accurately reflecting the ability of provinces to raise revenues from the various sources that are actually used. Supporters of the RTS argue that such a system is better suited to achieving the fiscal equity goals that Equalization is meant to achieve.

B. The CHST

The CHST is result of a gradual process of consolidation of various federal-provincial transfers in support of provincial expenditures on health, welfare and post-secondary education. Although that evolution is helpful in explaining some of the elements of the CHST, for our purposes it is sufficient to take a forward-looking perspective and evaluate it as it now stands.[12] Unlike Equalization, the structure of the CHST is relatively simple. The problems with the program revolve less around its structure than around its financial adequacy, its role as an instrument for fulfilling the commitments of Section 36 and the SUFA, and more generally its ability to meet the political economic objectives of efficiency and equity in the internal economic union in tandem with Equalization. These are addressed in the following subsections.

1. The Role of Tax Points

According to the federal government, the CHST consists of two parts — a cash component and a tax-transfer component. In fact, the tax-transfer component plays no essential role in the transfer, unlike in the EPF from which the CHST evolved. The aggregate cash allocation is set independently of the tax transfer: the latter affects only the allocation to the better-off provinces. Moreover, there is no sense in which tax transfers that were made in 1977 can be thought of as anything except provincial own-revenue sources. Nonetheless, the federal government has found it convenient to consider the tax transfer as part of their contribution, and this has led to confusion, lack of transparency and outright misleading claims. Thus, the share of the federal contribution to, say, provincial health care spending can be exaggerated. Moreover, the proportionate reduction in federal-provincial transfers in the early 1990s was vastly understated by stating it as a proportion of cash plus tax transfers in federal government budgetary documents. There is no reason for any longer including tax transfers as part of the CHST. By the same token, there is little purpose to attributing shares of the CHST to health, welfare and post-secondary education. The funds are completely fungible in the hands of the provinces. Although these reporting issues are not substantive in terms of their effect on the size of the CHST transfer, they are a source of mistrust and confusion for the public.

2. Adequacy, Predictability and the VFI

The CHST differs from Equalization, as well as from the EPF and CAP transfers that preceded it, in the sense that it is not formula-driven. It is determined by the discretion of the federal government according to its budgetary priorities of the day, albeit sometimes over a time horizon of up to five years. Not only is there no explicit escalator, the allocation among provinces is also discretionary and in the process of evolving. The absence of an objective formula for the CHST is troublesome to the provinces partly because it makes future entitlements unpredictable, but also because of an apparent mistrust of the federal government as a result of unilateral and unannounced changes to the transfer system in the past. Given the role of the CHST as a vehicle for addressing the joint commitments the federal government has with the provinces for achieving the redistributive equity objectives set out on Section 36(1), this tendency for unilateralism is a concern. Partly as a result of this concern, the two levels of government agreed as part of the SUFA to give prior notice of major changes in policy that are likely to affect another government, and to consult one another before implementing new social policies and programs. Whether this will assuage the concerns of the provinces about the predictability of the CHST remains to be seen.

There is a more general issue with respect to size of the CHST and that is whether it adequately fills the vertical fiscal gap between the province's room to raise revenues and their expenditure responsibilities. The provinces have argued, based on projections of future expenditures and revenues, that there is a structural imbalance in current fiscal arrangements. While provincial budget deficits are predicted to increase, federal budget surpluses are set to accumulate, unless there is a major adjustment either to the amount of transfers or the tax room allocation.[13] The federal government disputes this finding of a significant VFI, arguing that their debt problem is more serious than that of the provinces, that their expenditures will also rise substantially as well, and that the provinces have in fact been reducing their tax rates in recent years. The question remains an open one, although the provincial case seems well documented and convincing.

3. Conditions

The CHST comes with minimal conditions that the provinces must satisfy in order to be eligible for the full transfer. Provincial health care systems must abide by the terms of the Canada Health Act, and welfare systems must have no undue residence requirements, while no conditions apply to post-secondary education. While the case for such conditions rests on the federal government's possible role in fostering redistributive equity in the social union as set out in Section 36(1) and reaffirmed in the SUFA, their use is contentious. The province of Quebec questions the use of any conditions applicable to areas of exclusive provincial jurisdiction, and the Séguin Commission questions even their constitutional legitimacy. (Quebec feels less bound by the Constitution Act, 1982, to which it was not a signatory.) Other provinces have questioned the scope of the conditions of the Canada Health Act, especially those requiring public administration and precluding user fees. Some also argue that the legitimacy of the ability of the federal government to impose such conditions — sometimes against the will of the provinces — and to enforce them has been considerably weakened as its share of provincial health care spending has diminished.[14] At the same time, others argue that the conditions in the CHST are inadequate. The Romanow Commission on the Future of Health Care in Canada (2002) has proposed adding accountability to the conditions on health care, and extending conditional health transfers to areas other than hospitals. At the same time they recommend increasing the size of transfers to improve the legitimacy of the use of the federal spending power for health.

Matters of process are also important. Historically, the federal government has set the conditions, decided when they are violated and enforced them unilaterally. Quite apart from the reduced legitimacy of this process when the provinces are footing most of the bill, this unilateralism seems to violate the spirit of Section 36(1), which emphasizes the joint commitment of the federal government and the provinces to redistributive equity goals. This concern has been recognized in the SUFA, which makes special reference to the partnership between the two levels of government in addressing social policy objectives, at least with respect to new initiatives. One method of formalizing this partnership would be to create a special arms-length institution that might consult and advise on matters of the social union. Alternatively, following the Romanow Commission, such a body could perform an accountability function by monitoring and evaluating the efficacy of social programs.

4. Inter-Provincial Allocation Formula

After a period of transition, the principle was established that the CHST should be allocated among provinces on an equal per capita basis, and this will presumably be carried forward as the CHST is split into two components. The advantage of this approach is that the CHST is implicitly a perfect system of equalization on the revenue side of provincial budgets. The drawback is that no account is taken in the fiscal arrangements of differences in expenditure needs across provinces. In principle, it is clear that needs should be an element of equalization. Different provinces will incur different per capita expenditure obligations to provide comparable levels of public services that are targeted to particular demographic groups. It is also fairly clear how in principle to design a needs-based equalization system: define a representative set of provincial public services; calculate a national average standard cost of providing the service to the various demographic groups involved; and use these to calculate what each province would have to spend to provide services to its population using the common set of costs. Proposals for needs-based equalization typically base transfers on a common national-average service cost to determine the rate of equalization (analogous to a national-average tax rate for revenue equalization). It might be argued that provinces incur different costs of providing a given level of services, such as wages and salaries of service providers. For example, if doctors' salaries are lower in Newfoundland and Labrador, it might be argued that needs for equalization would be correspondingly lower. However, to use actual provincial costs to determine needs equalization would open the system up to adverse incentives for the provinces.

In practice, the process is not so simple. Provincial spending programs provide a very large number of types and qualities of public services. Delineating them for equalization purposes and assigning a standard cost factor is an ambitious task. Costs would have to include both operating and capital costs, and take account of capital replacement and maintenance and overhead. This makes applying a comprehensive system of needs-based equalization difficult. However, it is possible to apply needs-based equalization more selectively. For example, health, education and welfare services comprise the bulk of provincial expenditures. It would be feasible to construct a basic system that takes account of major demographic differences among provinces in delivering these services. The demographic groups could include those that actually determine expenditure requirements in health, education and welfare, such as age, disability, caseloads, etc.[15] Although the calculations have not been made for Canada, one might expect that those provinces with below average revenue-raising capacities also have above average expenditure needs, especially given demographic projections into the future. For example, elderly dependency ratios projected by Statistics Canada to the year 2040 predict that all have-not provinces will have higher than average elderly dependency ratios, and especially Newfoundland and Labrador as mentioned earlier (Mérette, 2002).

C. Other Issues

The issues arising from the design of Equalization and the CHST are no doubt the major ones. However, there are other federal-provincial issues apart from that. A major concern voiced by those who favour a reduced federal role is that some federal policies work to the detriment of efficiency in the internal economic union by distorting economic activity among provinces. For example, the employment insurance (EI) system contains elements that discourage intersectoral and interregional mobility, and in the process retard regional development. The fact that the self-employed in the fishery are eligible for EI is alleged to have been partly responsible for excessive employment in that industry. Differential EI benefit provisions in high unemployment regions is said to discourage out-migration. Generous eligibility provisions induce workers and employers to opt for short-term and seasonal work. And so on. The existence of these kinds of provisions have led some observers to suggest that on second-best grounds, Equalization should be less generous than it is. At the same time, the efficacy of regional development programs that provide investment incentives and financing the less-developed regions have been frequently attacked as being inefficient and cost-ineffective.

While it might be argued that the existing set of regional development and EI policies are ill-designed, a case can be made that regional development is a legitimate economic objective over and above Equalization and redistributive equity. Indeed, as mentioned above, item (b) of Section 36(1) commits the federal government and the provinces to 'furthering economic development to reduce disparity in opportunities'. The principle of decentralization suggests that the provinces might be better placed to implement regional development programs within their provinces. If so, a legitimate federal role might be to recognize that in the structure of federal-provincial transfers. This is potentially important for Newfoundland and Labrador, and we return to it below.

Finally, tax harmonization remains an important goal for the efficiency of the internal economic union. There is a need to preserve the harmonization that exists for personal and corporate income taxes. Its erosion is more likely to come about the greater the share of the income tax room is occupied by the provinces. This has obvious relevance for the preservation of a vertical fiscal gap between the provinces and the federal government. The case of sales tax harmonization remains a difficult question, at least with respect to those provinces that maintain a separate RST. This is a difficult question because the ideal sales tax system — a value-added tax — is also the most difficult one to operate in a decentralized federation. It is unlikely that an HST-type system will appeal to the larger provinces. Perhaps the best that can be hoped for is that these provinces will harmonize the bases of their RSTs to the GST base. As well, harmonization of other provincial business taxes remains a priority, albeit one that will have to be resolved by the provinces themselves, given that the federal government plays little role in most provincial business taxes. It is conceivable that the spur of tax competition from the US will lead provinces in that direction.

IV. Relevance for Newfoundland and Labrador

This province is a have-not province, heavily reliant on federal transfers, and characterized by high unemployment and lower-than-average per capita incomes. Moreover, one can make the reasonable conjecture that its demographic characteristics are such that it has relatively high needs compared with the Canada-wide average. It has, or will soon have, a significantly higher elderly dependency ratio than the national average; and, it has a higher than average welfare caseload. It has traditionally been heavily reliant on resource industries, especially the fishery, which fell on difficult times after the collapse of the cod stock. However, in recent years, the possibility of several major resource developments coming on-line in oil and gas, minerals and hydroelectricity has made the province one of the most rapidly growing ones in Canada. The question is whether the fiscal arrangements in their current form are adequate to ensure that these developments will facilitate the kind of economic and social progress that should be hoped for and is envisioned in Section 36 of the Constitution and in the SUFA. This includes not just the provision of comparable levels of public services at comparable levels of taxation, but also the fostering of equal opportunities, including regional development, and the promotion of the full and active participation of all Canadians in Canada's social and economic life.

Viewed from this perspective, there are a number of features of the fiscal arrangements that might be of concern for Newfoundland and Labrador. Some of these are issues that apply more generally, such as the adequacy of the level of CSHT transfers, given the possibility of a structural VFI; the absence of a formula-driven escalator in the CHST; some of the structural issues with Equalization, such as the ceiling provision, the five-province standard, the gross nature of the scheme, the lack of accounting for transfers to individuals, and the problems with the treatment of the property tax; and more generally, the extent to which the overall level of federal-provincial transfers (the vertical fiscal gap) has declined, and provinces have become more dependent on own-source revenues. The latter serves to increase the gap between the have-not and the have-provinces, and reduces the ability of the federal government to exercise its commitment in fostering the economic and social union.

There are also a number of issues of special concern to Newfoundland and Labrador. Foremost among these concerns are the implications of future natural resource developments for the province's Equalization entitlement. In the absence of special provisions, much of the gain in revenues from resource development is offset by losses in Equalization. Of course, this might be viewed as being fair to the extent that increases in revenue-raising potential from resource development imply that the need for Equalization transfers to satisfy the requirements of fiscal equity are correspondingly reduced. At the same time, this high rate of base tax-back can be viewed as being detrimental from a number of perspectives. First, it provides a significant disincentive for the province to develop resources, and perhaps leads it to impose substitute requirements on potential resource firms (e.g., domestic employment requirements) that may be inefficient from a national point of view. Second, the high rate of tax-back of resource developments in have-not provinces is highly unfair in the sense that those in the have-provinces are subject to no tax-back whatsoever. Third, it neglects the fact that resource developments might require provincial infrastructure expenditures as a necessary cost of development. Fourth, to the extent that natural resource development is more costly in Newfoundland and Labrador, the Equalization system's use of national average tax rates would overstate the tax capacity of the province's natural resources. And, fifth, the tax-back of resource revenues under the Equalization system neglects the commitment that the federal government has to regional development as a means of increasing opportunities in less-developed regions of the country. These considerations suggest exploring options to the current treatment of resource revenues to which we return below.

The current system of fiscal arrangements take little account of the higher needs and costs that apply in a province like Newfoundland and Labrador. Unlike the earlier shared-cost transfers that, despite their adverse incentive effects, were sensitive to actual provincial expenditures, the existing system effectively provides no Equalization for needs and costs. On the contrary, by providing equal per capita amounts, it implicitly ignores any such differences. In the case of needs, first principles suggest that they should be equalized fully and symmetrically with differences in tax capacities. The main difficulties are practical ones of implementation. With differences in costs, the case is not so clear. Principles of public finance suggest that if it is more costly to provide given services to a given population, there will be a conflict between efficiency and equity. In these circumstances, it is reasonable to provide partial equalization rather than none at all. This is relevant for Newfoundland and Labrador because of the higher costs of providing services in remote areas, the higher costs of attracting qualified professionals to service the province's health and education systems, and the need for additional infrastructure because of lower than average population densities.

V. Options for Reform

The Canadian fiscal federalism system has been a model for federations around the world. It has enabled the provinces to have a high degree of autonomy, while at the same time retaining a reasonable degree of comparability of public services across provinces, broadly comparable standards of redistributive equity, a mixed record of tax harmonization, and some progress towards improving the efficiency of the internal economic union. But the ongoing process of decentralization combined with the national response to the large debts built up in the 1980s has put enormous pressures on the sustainability of the current federal fiscal system. The support of the two have-provinces — Alberta and Ontario — for many of the established principles of the fiscal arrangements seems to be waning both as decentralization proceeds and as their economies become more and more reliant on the US economy. Newfoundland and Labrador is in a particularly vulnerable position, being the most dependent of the have-not provinces. Moreover, there are a number of aspects of the current fiscal arrangements that serve neither the province's interests nor the principles and commitments of the Constitution and the SUFA well. In this final section, we offer a number of suggestions and observations about directions that the system of fiscal federalism might take so that the integrity of the internal economic and social union is maintained and fostered, and the prospects for development of the provincial economy are facilitated.

A. Vertical Balance

The first priority is to attend to the vertical fiscal alignment of spending and taxing responsibilities. This involves adopting a level of federal-provincial transfers and a sharing of tax room such that an appropriate vertical fiscal gap is in place and there is vertical fiscal balance. An adequate fiscal gap is a prerequisite for the federal government and the provinces achieving the objectives of the economic and social union. What is adequate, of course, depends upon one's view of the appropriate role of the federal government relative to the provinces in furthering these objectives. However, if one abides by the dicta of the Constitution, and one accepts the basic principles enunciated in SUFA and the AIT, it would be hard to deny that a fiscal gap reasonably well above that required to finance Equalization alone would be necessary for the federal government to live up to its share of the responsibilities.

Over the past several decades, the extent of the vertical gap has been gradually declining and provinces have become increasingly responsible for raising more and more of their own revenues. This has occurred gradually and seemingly without any forward-looking grand design. The trend has accelerated rapidly in recent years as a consequence of the federal government's drastic cuts to transfers and the consolidation of the main social program transfers into the CHST bloc grant. Some observers favour this fiscal decentralization since it is supposed to contribute to provincial accountability and autonomy, and thereby to an improvement in the efficiency of the provision of public services. The extent to which this is true is debatable. After all, the decentralization has occurred virtually entirely on the revenue-raising side: provincial spending responsibilities are already decentralized. Whether making provinces more responsible for raising their own revenues contributes significantly to efficiency and accountability is not a clear-cut issue. Moreover, it also has potentially serious consequences for the Canadian social and economic union. First, fiscal decentralization imperils Equalization by increasing fiscal capacity differentials among provinces, by making it more difficult for the federal government to achieve effective Equalization, and presumably by eroding provincial political support for Equalization. Second, maintaining and extending harmonization in the tax system becomes increasingly difficult as the fiscal system becomes more and more decentralized. Third, the role of the federal government as a partner with the provinces in enhancing the social union depends almost entirely on an adequate level of federal-provincial transfers. And fourth, fiscal decentralization exposed the provinces to the vulnerability of unexpected shocks that are more readily addressed by the federal government. At the same time, maintaining an adequate vertical fiscal gap depends on the gap in tax room being properly financed by the federal government, so there is no vertical imbalance. It also depends upon the system of transfers having some stability and predictability so that the provinces are not subject to unannounced and unexpected cuts to their transfers from the federal government.

The federation has arguably reached the point where the vertical gap is insufficient in size and precarious in terms of its sustainability, although no doubt many observers will disagree with that conclusion. In my view, it is imperative for the deterioration of federal transfers to be halted and for some permanence to be put in place.

B. The CHST

The CHST is the main instrument available for achieving vertical balance. As well, it is the vehicle by which the federal government is able to participate with the provinces in achieving the goals set out in Section 36(1) and further enunciated in the SUFA principles. Several suggestions might be explored for placing the CHST on a firmer footing.

1. *Adequacy*. The level of federal cash transfers took an enormous hit when the CHST was formed. It is hard to imagine that the level of transfers is anywhere near adequate to provide the federal government with the moral and political authority to do its part in fostering the social union. This fostering does not come from the explicit terms put on provincial health and welfare programs as part of the conditions for receiving the full CHST. The federal-provincial share of funding presumably also has an impact on the strength of the federal voice in federal-provincial executive deliberations over social policy. For example, there were never conditions imposed on post-secondary education programs during the EPF period. Yet the provinces tended to abide by certain norms of non-discriminatory treatment of non-resident students. In recent years, provinces has gradually started to treat out-of-province students differentially with respect to in-province students, and it is hard to believe that this is not related to the relatively small federal contribution. It would be beneficial for the future of the social and economic union if federal transfers were enhanced significantly.
2. *Escalator*. The rate of growth of the CHST is as important as the level. At the moment, the growth of the CHST is determined not by formula but by federal government fiat. The nation would be better served if an escalator were established that ensured that an appropriate vertical gap is financed on an ongoing basis. Presumably this would bear some relation to the rate of growth of provincial expenditure responsibilities, though not necessarily in as direct a way as suggested by the Romanow Report.
3. *Allocation*. The CHST fulfils in part an equalizing role, enabling provinces to have the finances to provide adequate and comparable levels of essential public services. As such, the allocation among provinces should reflect need. At the moment, this is done by basing the allocation on an equal per capita basis. However, as provinces diverge in terms of their demographic composition, a case can be made for incorporating these differences into the allocation formula. This might be particularly relevant for health care, which makes up a large proportion of expenditures funded by the CHST. It should be relatively easy to adjust CHST allocations to take account of differences in, say, the share of elderly in the population. The same might be said for differences across provinces in the need for social assistance. The proportion of the population below some nationally determined poverty line could be used for this purpose. It should be stressed that these measures are fully in keeping with both the objectives of equalization and the responsibilities of the federal government set out in Section 36.
4. *Net Equalization Measures*. Correcting the allocation for differences in needs goes only partway to fulfilling the potential of the CHST as a complement to Equalization. As mentioned, one of the main shortcomings of the latter is its gross nature, that is, its failure to equalize down the have-provinces. The CHST could legitimately be adjusted to accommodate this. Since Equalization fully equalizes the revenue-raising capacity of the have-not provinces, the CHST allocation to the have-provinces could be adjusted to account for their above-standard tax capacity. This would be fully consistent with the past practice of equalizing tax-point transfers as part of the EPF and CHST systems. This procedure would also go part way to eliminating the anomalous treatment of resource revenues between have-not and have-provinces in the Equalization system.

5. *Elimination of Tax Points.* The time is long overdue for simply eliminating any reference to tax point as being part of the federal government's contribution to social program funding, or as influencing the allocation formula.
6. *Separating Spending Categories.* The CHST allocation is nominally disaggregated into health, welfare and post-secondary education components. The allocation is an accounting convention and bears no relation to the ways in which the funds are actually spent. In fact, the funds are fully fungible in the hands of the provinces. Some have argued that accountability might be better served if the CHST were disaggregated into categories. Thus, the Romanow Commission advocated the creation of a Canada Health Transfer separate from the other components. There is limited economic rationale for this. The argument is based purely on politics and optics, and would have to be judged on the same basis. One substantive implication of dividing the CHST into component parts is that the amounts of federal funding in each part might have to be increased in order to make any conditions imposed credible. Another possible implication is that it might prevent the support for post-secondary and welfare programs from being fully undermined as a larger and larger amount of provincial spending goes to health care.
7. *Conditions.* The conditions currently imposed on CHST-supported programs are uneven. Even in the case of the Canada Health Act conditions, their adequacy has been questioned. The Romanow Commission, for example, advocated accountability as an additional condition, and others have argued that performance guarantees should be instituted. While much of the attention has been devoted to the health conditions, it can be argued that there is more urgency for revisiting conditions on welfare and for introducing some mechanism for harmonizing post-secondary education programs. Universities cater to large numbers of out-of-province students and their graduates are among the most mobile. Issues of nondiscriminatory fees and entrance standards and harmonization of professional requirements are relevant for principles of equality of opportunity and inter-provincial mobility.
8. *Federal-Provincial Consensus.* Finally, the Constitution and the SUFA both stress the joint responsibility of the federal and provincial governments in providing adequate social programs to all Canadians. Given that the CHST is such an important policy instrument for that purpose, it would be helpful if the process of designing the form of the CHST and of setting, interpreting and enforcing its conditions were of a more collaborative nature.

C. Equalization

As stressed above, the Equalization program is of immense importance to Newfoundland and Labrador both in terms of the way that it ensures that the province has the capacity to provide national standards of public goods and services and in terms of the way that it facilitates economic development. Concerns with the program are of two principle sorts: those of general program design, and those that apply specifically to resources. Some suggestions for addressing each of these follows.

1. Structural Issues

The equalization objective set out in Section 36(2) is achieved jointly by the Equalization system and the CHST. Indeed, in some ways the latter is more effective as an equalization device than the Equalization program per se. However, the CHST equalizes mainly to the extent that it reflects a vertical fiscal gap. The Equalization program equalizes to the extent that revenue raising is decentralized. Some of the general issues of equalization design have already been taken up in discussing the CHST system. These include incorporating needs into the system and equalizing the have-provinces down to move the system closer to a net one. There remain others that — to the extent they are a problem — can best be achieved by revising the Equalization system. Apart from those involving the treatment of resources, these include the following.

1. *Five- versus Ten-Province Standard.* The five-province standard was adopted more out of expediency than principle. The main argument for it was to remove Alberta's oil and gas revenues from the standard, and thereby reduce the federal government's exposure to equalizing a revenue source to which it does not have direct access. In principle, this is not a compelling argument, and is one that, combined with the gross nature of the system, leads to outcomes that are anomalous. A strong case can be made for moving back to the ten-province standard.[16]
2. *The Ceiling Provision.* The same applies to the ceiling provision. It serves to compromise the integrity of the system by imposing what seems to be an arbitrary cap on Equalization entitlements. To the extent that the ceiling becomes binding, the case for Equalization is all the more compelling. The Senate Committee on National Finance (2002) recognized this, and now it seems as if the federal government is prepared to eliminate the ceiling provision as part of the health accord signed with the provinces this year.
3. *Problems with the RTS Approach.* There are a number of difficulties with applying the RTS approach, such as defining common bases when provincial bases differ widely, rationalizing the treatment of property taxes, and determining how to deal with user fees and gambling revenues. These problems have increased in importance as fiscal decentralization has proceeded. Although most have not reached the level of concern where the Equalization system is compromised, in the case of the property tax base that point is perilously close. Property tax entitlements are one of the most important in terms of magnitude, yet the definition of the base is to a large extent arbitrary. No good case had been made for not using a more representative definition of the base (e.g., one based on market principles). One option worth exploring might be to divide the property tax base into categories corresponding with different levels of property value. However, more study needs to be done, and probably sooner rather than later.
4. *The Macro Alternative?* Some authors have argued that the RTS should be replaced by a simpler alternative, such as a macro-based measure like provincial income.[17] The argument is based on the idea that a macro measure would be a better measure of 'ability to pay' by a province, would be less dependent on actual provincial policies, and would be less prone to adverse incentive effects. However, as argued in Boadway (2002a), the notion of ability to pay is inappropriate as a basis for inter-provincial equalization.

It is a concept that is used as a measure of individual well-being for the purposes of achieving redistributive (vertical) equity in the interpersonal tax-transfer system, and even for that purpose there is far from a consensus about the appropriate measure to use. The Equalization system is not meant to be an instrument for interpersonal redistribution of purchasing power. On the contrary, it is concerned with the ability of provinces to provide comparable levels of public services, not private incomes. As such, the RTS is conceptually the proper notion. That is not to say that the RTS could not be simplified by reducing the number of revenue sources used by aggregation. However, it is not clear that such a change would solve any of the real problems of Equalization. For example, it would make little difference to the base tax-back incentive problem. Moreover, a more aggregate measure would not reflect the fact that different revenue sources are taxed at quite different rates among provinces.

5. *The National Average Tax Rate*? By using a national average provincial tax rate to determine the rate at which deficiencies in per capita tax bases are equalized, full equalization in the ability of have-not provinces to raise revenues is achieved. While this seems to be in accord with constitutional principles, some have argued that full equalization is excessive. For example, Courchene (1994) argues, using the analogy with a negative income tax system, that 70 per cent rather than 100 per cent of differences in provincial revenue-raising capacity relative to the national average be equalized. The argument is that this would be an appropriate way to address adverse incentive effects of Equalization, albeit using the unfortunate analogy with an interpersonal tax-transfer system whose purpose is completely different from that of Equalization. It is not at all clear that the incentive problems for Equalization are anywhere near serious enough to restrict Equalization by that extent. An exception may be natural resources revenues to which we return below.
6. *Stability*. The Equalization system can cause provincial revenues to be less stable than they otherwise would be. To the extent that provinces are less able than the federal government to self-insure against uncertainties in revenue streams, this is a perverse outcome. The floor provisions provide some insurance against extreme downside risks, but that is clearly insufficient. One way to address this issue is to calculate Equalization entitlements as a moving average over a period of years. This would at least smooth out year-to-year shocks in a province's entitlements.

2. Treatment of Resources

The treatment of resource revenues presents the thorniest problems for Equalization design from a conceptual and a practical point of view. The unequal distribution of resource properties among provinces is one of the main sources of differences in NFBs, so from a purely economic point of view one might expect that equalizing these differences might be a first priority of the Equalization system. However, there are several problems that have been raised in the literature that *may* detract from that priority.

1. *The Base Tax-Back Problem*. At least with respect to new resource developments, this can be much more important for resources than for other revenue sources. That is because provinces have some direct control over the extent to which resource

discoveries are developed. Thus, unlike other major tax bases like personal incomes or sales or payrolls, the province can control the size of the base. Given that for a have-not province, Equalization entitlements fall proportionately with increases in the base, there is a sizeable disincentive to develop resource properties. Moreover, this incentive applies differentially to the Atlantic provinces, which are not part of the five-province standard. However, there is a counterargument. Once resources have been discovered, the decision facing provinces is essentially when to develop them. Since the equalization tax-back will occur whenever they are exploited, the provincial choice amounts to whether to postpone that tax-back that will eventually occur rather than to avoid it altogether. Put that way, the incentive to postpone development is virtually nullified implying that the tax-back problem is mitigated to a considerable extent. The tax-back problem really involves a disincentive to explore for natural resources rather than to development once discovered. Perhaps the best response to that problem is to insist on generous federal tax incentives for exploration since it is the federal government that ultimately reaps the benefit of reduced equalization payments.

2. *Asymmetric Treatment of Have and Have-Not Provinces*. While resource developments are fully equalized for the have-not provinces, they are not equalized at all for the have-provinces, except indirectly through the general revenue financing of Equalization payments. In fact, since Alberta is outside the five-province standard, their vast resource revenues are completely unequalized, even indirectly. This implies that the have-provinces do not face the same disincentive for resource development. Moreover, it raises the issue of the fairness of the Equalization system and its ability to meet the objectives of Section 36(2). It seems fundamentally unfair that a province like Alberta can retain the full proceeds of its vast oil and gas revenues, while have-not provinces like Newfoundland and Labrador are taxed back at very high rates, even where the analogue of the generic solution applies. It might be countered that since the purpose of Equalization is to compensate for differences in tax capacity, it is proper that if resource revenue capacities rise in a have-not province, this should be taken account of in the calculation of entitlements. But, the same logic should also apply to the have-provinces.
3. *Provincial Ownership of Resources*. Perhaps most problematic is the apparent contradiction between the principles of Section 36, which suggest full equalization of resource revenues, and the notion that resource assets are 'owned' by the provinces in which they are located. In charging royalties for the exploitation of resources, the provinces can be viewed as exercising those property rights. The provincial ownership of resources is not enunciated explicitly in the Constitution, but it might be inferred from the assignment of property and civil rights to provinces, by the terms of Section 92A, which confers upon the provinces the right to obtain revenues from resources by any means, and by the proscription against one government taxing another. Thus, while the property rights to resources are given to the provinces by one hand, Section 36 effectively takes them away on the other. Resolving this conflict is at the heart of the debate over equalization of resource revenues, and clearly it involves more than economic input. Those who provide more weight to the Section 36(2) argument than to provincial ownership of resources can point to the fact that not only is Equalization a constitutional commitment, but the federal government also has a very broad right to

levy taxes of any form and for any purpose as long as direct taxation of provinces is not involved. This power is sufficient to be able to fully equalize natural resource revenues should they choose to do so. In any case, resolution of this conflict must involve non-economic arguments.

4. *Resource Revenues Represent Asset Depletion.* Boessenkool (2001) has argued the non-renewable resource revenues should not be equalized at all because rather than being income they are simply a transformation of asset wealth into other uses. The argument seems to me to be a *non sequitir*: it is based on nothing other than the observation that resource revenues differ in form from, say, wages and capital income. Why should the proceeds from a windfall endowment of non-renewable natural resource wealth not be deemed eligible for Equalization, while income generated from work effort is? Both contribute indistinguishably to the financing of public services and affect the rate of taxation at which such services can be provided. Of course, one could argue that to the extent that natural resource revenues are put into a fund that is gradually drawn on in the future, their Equalization should be postponed. But that simply changes the timing of Equalization, not the principle.
5. *Resource Revenues are Capitalized into Local Prices.* Boessenkool (2001) buttresses his argument for the non-taxation of non-renewable resource revenues by the suggestion that all such revenues will be capitalized into wages and property values, and subsequently enter Equalization indirectly. This argument is apparently drawn from the American literature, although it has also been part of the Canadian debate going back to the work of the Economic Council in the 1980s. The problem with the argument is that there is no evidence that there is significant capitalization of resource rents into local property values or other prices. Indeed, the conditions for capitalization are fairly stringent: high and relatively costless mobility would be required. In any case, to the extent that capitalization does occur, it does so because of fiscally induced migration, which is inefficient. Equalization should itself be capitalized in property values in the other direction, thereby both undoing the alleged source of double equalization that is alleged to occur, and in the process mitigating the fiscally induced migration. Therefore, in my view, both these last two arguments against equalizing non-renewable resource revenues can be significantly discounted.

There are also some design problems that apply especially to the RTS treatment of resource revenues. In defining the representative tax base and the national average tax rate, there is a presumption that all provinces could readily apply common tax rates to their given bases and extract the resulting amount of revenues. While this may be true for tax bases like income and sales, it is not so clear in the case of resource royalties. Royalty rates are typically based on some measure of the amount of the resource extracted, and the representative tax bases used for Equalization will reflect that. However, if different resources have very different costs of extraction, it would be difficult for provinces to apply high royalty rates to high-cost resources as to low-cost ones. To some extent this is taken into account in the Equalization system by disaggregating high-cost from low-cost resource properties into separate revenue sources. But, that is bound to be an imperfect solution. If resource bases were defined to reflect the ability to extract revenues, for example by using some notion of resource rents, the problem would at least partly be overcome (see also Feehan, 2002). However, since provincial royalty bases are very different from rents, this would be a departure from the existing RTS methodology and might be difficult for the federal government to implement.

Yet another design problem occurs when provinces are able to take the benefits of their resources not as revenues collected but in the form of lower prices to their residents. This might be particularly the case when the resource is developed by a public corporation whose output serves mainly domestic users, such as hydroelectricity. To the extent that the users are final consumers, the benefits of the resource go unequalized. If they are firms, the benefits presumably show up in profits, which are then subject to Equalization. This problem is probably fairly limited in scope, as the example suggests.

Squaring the circle with respect to these conflicting issues in resource equalization is not an easy task, especially since it involves more than economic adjustments. A number of suggestions have been made, and we recount them here only as alternatives worth considering. Where one eventually comes down from a policy point of view involves taking a position on non-economic issues involving the ownership of resource revenues. Consider each of the first three major problems mentioned above (having discounted the last two).

The second one involving the differential treatment of have and have-not provinces is in principle the easiest to address. If the Equalization system were a net system using a ten-province standard, the have and have-not provinces would be treated on a par. While there is no particular argument against moving to a ten-province standard, the obstacles to moving to a net system would be considerable. Given that, a piecemeal reform of adopting a ten-province standard within the current gross system would be a substantial improvement from the point of view of consistency. It would not be fully consistent since the have-provinces would still be able to retain more of their resource revenues than would the have-not provinces.

The first problem involving adverse incentive for have-not provinces to develop their resources is a typical equity-efficiency problem that economics policy often confronts. There is no easy way to solve this trade-off other than compromising between the two objectives.[18] In this context, that would suggest reducing the rate of tax-back by including only a proportion of the base, analogous to the generic solution. Where the generic solution only applies where a province has a significant proportion of the national tax base, the solution to the base tax-back problem would have to involve all resources no matter how large or small a province's tax base is. The appropriate rate of inclusion of resource revenues would be a matter of judgment, and in principle it could differ from resource to resource. One obvious option is to extend the generic solution to all resource revenues. Including 70 per cent of resource revenues would seem to be sufficiently generous to address the incentive issues. It corresponds with what Courchene (1994) thought to be suitable for that purpose. However, one cannot be categorical about the appropriate rate since not only do we not know the extent of the disincentive involved, but also there are trade-offs between reducing disincentives for resource development and other objectives of Equalization.

The third problem — the conflict between Section 36 and the provincial ownership of resources — also points to some compromise solutions. One solution, explored by the Economic Council of Canada (1982) and recounted by Feehan (2002), would be to interpret provincial ownership of resources as ownership of the resources by the citizens of the province. Provincial resource revenues collected on behalf of the citizens would then be considered as imputed incomes of the residents themselves. Had these revenues been received directly by individuals, they would have been subject to federal tax. But since the provinces are acting as collection agencies on behalf of the provinces, the revenues escape federal tax. The Economic Council of Canada suggests the remedy of equalizing a proportion of provincial resource revenues equal to the average federal tax rate on personal incomes (say, 30 per cent). Whether this a reasonable compromise is a matter of judgment: it is certainly one that goes well beyond what would be required on incentive grounds. Indeed, in a sense it is not really a compromise at all since it treats provincial ownership of resources as being the overriding governing criterion rather than Section 36 (or efficiency considerations[19]). Not all observers will view provincial ownership of resources as trumping Section 36(2). Even the Economic Council of Canada presented it as one option and made clear that some political judgment was involved.

The upshot of this discussion is that a case can be made for systematically equalizing resource revenues at a lower rate than other revenues. However, what that rate should be is not at all clear. If any consensus exists, it might be that the generic solution of including only 70 per cent of resource revenues should be applied broadly to all natural resources. Perhaps what is more important is that recognition be given to the principle that the Equalization of resource revenues carries with it problems of ownership and incentives that other revenue sources do not.

D. Regional Development

Much of the debate over the fiscal arrangements has focused on the two issues of Equalization and the use of the spending power for social policy purposes. This reflects the relative importance of the two main federal-provincial transfer programs. However, there is another element of Section 36 that has received much less attention, and that is item (b) of Section 36(1) committing the federal and provincial governments to 'furthering economic development to reduce disparities in opportunities'. Regional development policies have been pursued by the federal government through regional development grants, investment incentives, federal spending policies and infrastructure programs. But, it could be argued that the principles of decentralization would suggest that provinces are better placed to enact regional development policies (although some economists might suggest that there should be no such policies in the first place). Given the national interest in regional development, the federal role might be pursued by incorporating the costs of regional development into the system of federal-provincial transfers. This could, for example, be used to offset the disincentives associated with resource development in the Equalization program. There has been virtually no literature on the use of the federal spending power to achieve regional development objectives, despite the fact that it is a shared federal-provincial commitment under Section 36(1). This is a subject that could benefit from further consideration.

E. Tax Mix

Another issue of importance for the social and economic union is tax harmonization and the implications of the tax mix for extending it. Income tax bases are harmonized throughout most of Canada due to the tax collection agreements. As the provinces have occupied more and more of the tax room, harmonization of the rate structure has given way to allowing provinces considerable discretion in choosing their rate structures. This is not necessarily a bad thing, although it seems to be having the consequence of flatter tax schedules at the provincial level. There is much at stake for a low-income province from the income tax structure becoming less progressive. Simply the fact of having lower-than-average per capita incomes implies that with less progressivity, not only is less vertical equity achieved nationwide, but also the implicit redistribution from the rest of Canada to Newfoundland and Labrador is reduced. From the point of view of this province, the greater the share of income tax room occupied by the federal government, the better it is for the province.

The share of income tax room occupied by the federal government is related to the share of sale tax room. In the case of the sales tax, since the GST is much more efficient than retail sales taxes used in many provinces, efficiency in the internal economic union is better served by a larger share of sales tax room being occupied by the federal government. Moreover, the likelihood of sales tax harmonization being extended to non-HST and non-QST provinces is also enhanced by the federal government occupying more tax room.

Given that the federal government cannot be dominant in both the income and sales tax fields, the question is which one should they attempt to protect. A case can be made that from the point of view of Newfoundland and Labrador, it is much more important that the federal government retain dominance in the income tax field than in the sales tax field. Since the province already participates in the HST, there is little to be gained from harmonizing further in the sales tax area. At the same time, there is a lot to be gained from retaining a large federal tax presence in the income tax field since this translated into more vertical equity nationwide. More generally, to the extent that one puts weight on equity relative to efficiency nationwide, one would favour the federal government choosing a tax mix that weights income taxes heavily relative to sales taxes, leaving more room at the provincial level for the latter.

F. Process

Finally, fiscal arrangements are influenced by the institutional process by which they are put into place. In Canada, this has been dominated by federal decision-making taken in the context of year-to-year budgeting, albeit with varying degrees of consultation with the provinces. It can be argued that this process leads to fiscal arrangements being set too much with short-term budgetary considerations in mind, and too little with respect to longer run consequences. Moreover, given the secrecy of the budget process, it leads to deliberations about the shape of the fiscal arrangements being taken behind closed doors without input from the public and the provinces.

Some federations have attempted to supplement the budgetary determination of the fiscal arrangements by an advisory process involving an arms-length institution with representation from the provinces and the public. Thus, Australia has a Commonwealth Grants Commission that advises the central government on fiscal transfers, India has a National Planning Commission that does the same thing, and South Africa has a Financial and Fiscal Commission for the task. In each case, these advisory bodies have achieved considerable reputations for their sound and well-researched advice, and for the manner in which they have served as institutions for taking all stakeholder views into account. From time to time, a similar body has been advocated for Canada, most recently by the Romanow Commission in the area of health transfers. It would be in the spirit of the SUFA to establish such a body. Maybe the time has come to consider instituting a grants commission for Canada.

Endnotes

[1] The discussion in this paper is couched in terms of the federal and provincial governments, since that set of relationships is the most relevant for this Royal Commission. Nonetheless, many of the same principles apply to federal-territorial relations and, to a lesser extent, to federal-first nations fiscal relations.

[2] A third source of contention concerns the different aspirations for the fiscal system that exist in Quebec as a result of linguistic and cultural issues. Since these are not of particular relevance for this Royal Commission, we do not consider them further.

[3] The case for the legitimacy of the federal spending power in Constitutional law is outlined in Hogg (2000). However, this has recently been put in question by the report of the Séguin Commission in Quebec (Commission on Fiscal Imbalance, Supporting Document 2, 2002). They argue that the spending power has not yet been put to the legal test. See Watts (1999) for a comprehensive discussion of the spending power in various federations around the world.

[4] It is interesting to note that in turn provincial transfers to their municipalities have been roughly the same order of magnitude as federal-provincial transfers.

[5] The distinction between the vertical fiscal gap and a VFI is discussed in Boadway (2002b). Basically, a vertical fiscal gap will exist without a VFI if federal-provincial transfers adequately reflect the differences between provincial revenue-raising and expenditure responsibilities.

[6] For a further discussion of the pros and cons of decentralization, see Boadway (2000).

[7] This idea that the federal versus provincial basis for redistributive equity can be posed as being related to the extent to which the nation or the provinces is the relevant sharing community is developed in the context of health insurance in Banting and Boadway (2002).

[8] This is explained in more detail in Boadway (2000, 2002a).

[9] See Boadway and Hayashi (2002) and Boothe (2002) for evidence that provinces revenue capacities are destabilized by the Equalization system: the revenues of have-not provinces have actually been more volatile in the presence of Equalization than they would have been in its absence.

[10] As an aside, this discussion is relevant for evaluating the main proposal of the Séguin Commission to eliminate the CHST and turn over the GST to the provinces. It is not clear how this could be implemented given that five of the provinces maintain RSTs and a sixth (Alberta) has no sales tax at all.

[11] These are discussed in more detail in Boadway (2002a). See also the recent report of the Senate Committee on National Finance (2002).

[12] For a good exposition of the evolution of the CHST, see Lazar, St-Hilaire and Tremblay (2002).

[13] This sort of projection formed the basis for the main recommendation of the Séguin Commission that the federal government simultaneously turn over all the GST tax room to the provinces and eliminate the CHST. They argued that the excess of revenue raised by the GST over the cost of CHST just offset the existing VFI. The details of VFI calculations are discussed in Lazar, St-Hilaire and Tremblay (2002).

[14] Lazar, St-Hilaire and Tremblay (2002) recount this argument clearly.

[15] A crude version of such a system exists in South Africa, and a more sophisticated version has been proposed by the Financial and Fiscal Commission, an advisory committee to the national government on fiscal federalism (Financial and Fiscal Commission, 2000).

[16] The Senate Committee on National Finance (2002) recommended returning to the ten-province standard. They also recommended removing the ceiling provision, maintaining the floor provisions, retaining the RTS approach (rather than the macro one), and increasing the generosity of the generic provision to give more protection to natural resource revenues.

[17] A representative argument for a macro formula may be found in Boothe (1998). His proposal would use an adjusted measure of personal income as an index of provincial fiscal capacity. Provinces with per capita personal income below a (ten-province) national standard would receive Equalization based on a rate of about 32 per cent of the deficiency. Note that by using personal income as a base, a substantial proportion of resource revenues escapes Equalization.

[18] One might argue that the incentive problem could conceptually be overcome by bringing into the Equalization system a province's resource potential whether or not they choose to develop it. But this solution has several problems. For one, a province only learns its resource potential by exploration. The incentive problem would simply be diverted to the exploration stage. For another, basing Equalization on potential rather than actual tax bases would violate the purpose of Equalization as a mechanism for compensating for actual NFB differentials.

[19] It is sometimes argued that the efficiency consequences of Equalization are inconsequential. However, recent work by Wilson (2001) suggests that they can be substantial.

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Appendix

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Newfoundland and Labrador

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Newfoundland and Labrador

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 3

June 2003

Foreword

This volume forms part of a four volume set, containing the research papers and polls contracted by the Royal Commission on Renewing and Strengthening Our Place in Canada. The Commission's main report and a summary report are available at the Office of the Queen's Printer, Confederation Building, St. John's, Newfoundland and Labrador, Canada, A1C 5T4. The summary report is available in English, French, Inuktitut, Innu-aimun, Mi'kmaq and Braille. All of the Commission's published materials, including research papers and polls, are also available at the web site: *www.gov.nl.ca/royalcomm*.

The Commission's Terms of Reference called for a research program to address key issues. The goals of the research program were: (i) to provide information and an independent assessment of key issues in support of the analysis, conclusions and recommendations contained in the final Report; (ii) to generate fresh perspectives and new ideas on critical issues; and (iii) to provide the public with a body of information and analysis of important issues. The nature and extent of the Commission's research program were shaped by the Commission's short mandate of approximately one year.

Most of the research contracted by the Commission consisted of research and analysis papers designed to provide a thematic overview of the issue to be addressed, a review of existing literature, an analysis of the state of knowledge on the issue, conclusions and, where relevant, policy options or recommendations for consideration by the Commission. A smaller number of research projects were more extensive and more original in research scope, including financial and economic analyses, polls and other surveys. In addition, the Commission contracted independent commentaries from a number of authors; these are also included in these collected papers. Most of the externally contracted research was subject to peer review. Since the papers are collected in four volumes, a full list of the 28 published papers and two public opinion polls is contained as an appendix to this volume.

The analyses contained in these published papers remain the responsibility of the authors, and the views expressed do not necessarily reflect those of the Commission.

The Commission expresses thanks to the authors for undertaking their important work in a professional manner, within the constrained time-frames of the Commission's mandate. We wish to acknowledge and thank those persons who provided independent peer review of the research papers. Overall, the research program made an important contribution in shaping the Commission's understanding of the issues and the development of its recommended Pathway to Renewal founded on a new partnership between the federal and provincial governments.

Victor Young, O.C.
Chair

Elizabeth M. Davis, RSM
Commissioner

Hon. James Igloliorte
Commissioner

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 3
Table of Contents

Foreword iii
Notes on Authors vii

Collected papers:

George A. Rose
Fisheries Resources and Science in Newfoundland and Labrador: An Independent Assessment 1
David Vardy and Eric Dunne
New Arrangements for Fisheries Management inNewfoundland and Labrador 73
Phillip M. Saunders
Policy Options Forthe Management and Conservation of Straddling Fisheries Resources 179
John C. Crosbie
The 1985 Canada-Newfoundland Atlantic Accord 229
Jason L. Churchill
Power Politics and Questions of Political Will: A History of Hydroelectric Development in Labrador's Churchill River Basin, 1949-2002 257

Appendix 313

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Fisheries Resources and Science in Newfoundland and Labrador: An Independent Assessment

— George A. Rose

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

The fisheries in Newfoundland and Labrador waters began in the early 1500s, were prosecuted mainly for Atlantic cod (*Gadus morhua*), and increased markedly, and unsustainably, in the last half of the 20th century. The terms of union of Newfoundland with Canada relinquished full authority for research and management of the marine fisheries to the Government of Canada in 1949. Since then, a combination of circumstances which included the inability to control foreign and domestic fisheries, inadequate science, inappropriate policies, ineffective management, and the inability to react to local environmental and fisheries conditions and knowledge, has led to a major decline in the status of most fish stocks in the Newfoundland and Labrador marine ecosystems, and most recently to a regime shift to a crustacean-dominated biological community. The best known example of decline is the northern Atlantic cod, but this is only one of many species that is likely at all time historic low levels of abundance, including potentially valuable commercial species such as the redfishes (*Sebastes spp.*), the haddock (*Melanogrammus aeglefinus*), and the American plaice (*Hippoglossoides platessoides*), pelagic fishes, especially capelin (*Mallotus villosus*), and also species of lesser or no commercial importance. In the early years of the 21st century, the fishery has become dependent on snow crab (*Chionocetes opilio*) and northern shrimp (*Pandalus borealis*). Increased abundance in these species during the 1990s comprises a marine ecosystem regime shift likely caused by a change in oceanographic climates compounded by a reduction in predators, in particular cod. The state of fisheries science at the federal and provincial levels is inadequate to diagnose such ecosystem states and to support sustainable and durable fisheries. During the 1990s, the federal government substantially reduced funding and personnel for fisheries research, and there is no overall plan for future fisheries, especially the historically important northern cod and Grand Banks fisheries. Fisheries science at Memorial University remains a minor undertaking, despite the history, culture, and economy of the province it serves. A number of recommendations are made to enhance the abilities of Newfoundland and Labrador to renew and strengthen its position within Canada. Recommendations under local jurisdiction include the development of a Newfoundland and Labrador Fisheries Science Centre at Memorial University. Other recommendations that involve external co-operation include actions aimed at adopting a world leadership position in conservation and fisheries for the Newfoundland and Labrador marine ecosystems. To this end, the Government of Canada should be urged to reform its fisheries science program within an independent Northwest Atlantic Fisheries Research Institute based in St. John's, to restore funding and research vessels, and to engage an ecosystem-based approach to fisheries science and management by taking custody of the full Grand Banks ecosystem, protecting spawning and juvenile areas by closures to all fishing and industrial exploration, and protecting forage species, in particular capelin. Finally, Newfoundland and Labrador should develop its own vision of its own future in the fisheries, a successor to the FRCC should be given broader fisheries ecosystem authority, and local operational authority and responsibility for fisheries by primary stakeholders within fishing communities should be enhanced.

Terms of Reference

The terms of reference for this review were to provide an overview of:

1) the nature and extent of the renewable resources in waters adjacent to Newfoundland and Labrador (NAFO areas 2GH, 3KLMNOP, 4R);

2) chief factors influencing stock biomass, population dynamics and resources available for harvesting;

3) what is known about the causes and effects of the collapse of the northern cod and other species (e.g. capelin, but selecting only key cases to illustrate trends);

4) current scientific effort used to assess fisheries resources, and the process by which scientific knowledge and judgement is applied to resource management decisions;

5) any other information and analysis considered pertinent to the task of assessing and regulating sustainable fisheries resources;

and to,

6) draw conclusions and recommendations about the significance of recent knowledge about fisheries science for Newfoundland and Labrador's continuing place within Canada and its ability to renew and strengthen that relationship.

Contents

Table of Figures 6
Summary of Recommendations 7
Introduction 8
A Brief History of the Newfoundland and Labrador Fisheries 9
  The Cod Fisheries 11
  Pulse Fisheries and Commercial Extinctions 13
  Extinctions 14
  Other Historical Fisheries 16
  Fisheries Yield 16
The Decline of the Newfoundland Cod Stocks and Other Species 18
  The Causes and Effects of the Decline of the Northern Cod 18
  The Northern Cod Since the Moratorium 24
  Ocean Climate 25
  The Rise of Pandalid Shrimp and Snow Crab 28
  Ecosystem Changes 30
  Trophic Structure 32
Current State of the Renewable Marine Resources of Newfoundland and Labrador 34
Current Levels of Science and their Application to Management 38
  A Brief History of Fisheries Science in Newfoundland and Labrador 38
  The Present State of Fisheries Science and its Application to Management 41
  Centralization and Alienation of Science 41
  Inadequate Support for Fisheries Science 43
  An "Ecosystem-Based" Approach and Curtailing Foreign Over-fishing 44
  Managing Canadian Fisheries (Within the 200 Mile EEZ) 44
  The Lack of a Plan and Perverse Agendas 46
  Strategy/Benefits/Risks/Science Implications/Management Implications 47
  Oil and Gas Exploration and Shipping 48
  New Direction 48
  A Rebuilding Plan for the Newfoundland and Labrador Fisheries 51
Conclusions and Recommendations 52
  Newfoundland and Labrador 52
  External 53

Endnotes 57
Acknowledgements/Caveats 57
Bibliography 58
Stock Status Reports referenced or consulted 69
Appendix I 70
Appendix II 71

Table of Figures

Figure 1. The Northwest Atlantic Large Marine Ecosystem (and the mid-Atlantic to the south) 10
Figure 2. Newfoundland and Labrador cod landings from 1500 to 2000(equivalent to fresh landed weights). See Appendix I for data sources. 12
Figure 3. Landings of all species in Newfoundland and Labradorfrom 1500 to 2000 (landings in 100,000 t). 15
Figure 4. Landings of species newly or pulse-fished in the 20th century in Newfoundland and Labrador waters (landings in 100,000 t). 15
Figure 5. Seal landings in Newfoundland and Labradorfrom 1500 to 2000 (landings in 100,000 seals). 17
Figure 6. Newfoundland and Labrador landingsfrom 1900 to 2000 (landings in 100,000 t). 17
Figure 7. Map of the Northwest Atlantic Fisheries Organizationdivisions and the general bathymetry. 21
Figure 8. The decline of the northern cod in the late 1980s and early 1990s.Top panels are the DFO fall trawl surveys. Middle panels are the winter trawlfishery. Bottom panels are spring acoustic cod densities.Read chronologically down, then across. (from Rose et al., 2000). 23
Figure 9. For the period 1940-1997, a) the annual average North Atlantic Oscillation (NAO), b) ice-coverage averaged annually for the Newfoundland and Labrador shelf, c) temperature and d) salinity from the innerNewfoundland shelf averaged over water column and filtered to remove theseasonal signal. Horizontal reference lines in b,c, and d are means. 27
Figure 10. Shrimp catch in SFAs 2 to 6, from Baffin Island (SFA2)to Hawke Channel and the Funk Island Bank (Hawke + 3K)(data extracted from SSR C2-05, 2002) (catch in 1,000 t). 28
Figure 11. Snow crab landings in Newfoundland and Labrador waters(NAFO divisions 2J3KLNO, 3Ps, 4R) (landings in 1,000 t). 29
Figure 12. The species composition of Newfoundland and Labrador fisheries landings in the 20th century (%). 31
Figure 13. Historical (top) approximations of thebiomass pyramid in the Newfoundland and Labrador ecosystems,and the more hour-glass shape of its current state (bottom). 33
Figure 14. Landed value ofNewfoundland and Labrador marine seafood (1,000$). Data from DFO and provincial DFA sources. 34
Figure 15. Echogram across over-winteringaggregation of cod in Smith Sound in late 1990s.Aggregation is approximately 150 m deep and 1,500 m wide. 37
Figure 16. Post-spawning cod in the Hawke Channel in June, 1998.Most fish were four years old (1994 year class). Total depth 425 m, 8,000 macross. Top panel is expansion of bottom 10 m. 38

Summary of Recommendations

Fisheries science remains poorly developed in Newfoundland and Labrador, at both the federal and provincial levels. A strengthened fisheries science presence in Newfoundland and Labrador is fundamental to the development and future of the fisheries, and to an improvement in the position of this province to renew and strengthen its relationship within Canada. The following recommendations stem from this report:

1. that Memorial University establish an academically-based Newfoundland and Labrador Fisheries Science Centre, with fisheries faculty taking an ecosystem-based research approach to oceanography, stock assessment, and groundfish, pelagic, and crustacean fisheries science;
2. that a course on the history and culture of Newfoundland and Labrador be made mandatory in the Newfoundland and Labrador high school curriculum;
3. that Newfoundland and Labrador, in consultation with the public and industry, develop a focused vision for marine fisheries ecosystems and their biological, economic and social dimensions, with firm objectives to be included in a master plan;
4. that Newfoundland and Labrador urge the Government of Canada to reform federally-funded fisheries science into independent Institutes of Fisheries Research (in Newfoundland and Labrador, the Northwest Atlantic Institute of Fisheries Research), that would be independent of management, and that science vessels be reinstated under their control and that their number not be reduced further;
5. that in order to pursue "ecosystem-level" science, in keeping with Canada's commitments under recent international agreements to rebuild depleted fish stocks, and to enhance the abilities of fisheries science to inform management on options for a sustainable and enduring fishery in Newfoundland and Labrador waters, several specific actions are recommended:
    a) unified management of the Grand Banks be pursued that would bring science, management and enforcement of the full coastal and Banks ecosystem under a single and more rational program than currently exists;
    b) that long-term marine ecosystem management plans be developed (preferably by the FRCC or its successors), which would include at least the following:
        i. determinations of conservation-based harvest levels within the ecosystem context,
        ii. recognition of the climate-based nature of the fisheries and potential for change over time,
        iii. rebuilding collapsed stocks and ecosystem processes,
        iv. allocation of rebuilding groundfish resources and appropriate gear types (e.g. inshore versus offshore fishery; abolition of destructive fishing practices),
        v. appropriate scientific monitoring to inform an ecosystem-based approach to management (e.g., surveys of multiple trophic levels),

vi. a system of limited or no-take fishing and oil and gas exploration and development zones to protect habitat and spawning and juvenile fish,

vii. closure rules for unsustainable or uneconomic fisheries (e.g., capelin),

viii. habitat protection and restrictions against pollution (both land and sea based).

c) that an Atlantic Fisheries Conservation Board be set up to replace the current Fisheries Resource Conservation Council. The AFCB would have responsibilities for all fisheries resources, would be comprised of independent experts from industry and governments, including several full-time scientific employees (seconded or retired), would take an "ecosystem" approach, and would advise management directly. The AFCB would report to the federal minister only for administrative purposes.

d) that locally-based fisheries councils be set-up that are close to the fisheries, involve local expertise, and can take responsibility for designated local management and enforcement functions such as bycatch allocation, seal control, and methods to limit poaching and enhance conservation.

Introduction

Newfoundland and Labrador marine ecosystems form part of the wider North Atlantic large marine ecosystem (Sherman and Skjoldal, 2002) (Fig. 1). The Newfoundland and Labrador marine ecosystems are characterized by a wide and relatively shallow continental shelf transected in places by deeper trenches. Ocean circulation is dominated by the southerly flowing and very cold (to –1.7°C) Labrador current, which results in seasonally highly stratified water columns off most of the northeast coast, and to the south, strong fronts caused by intersection of the Labrador current with the northeastward flows of the warm Gulf Stream off the southern Grand Banks. This combination of broad continental shelf, steep shelf breaks and adjacent deeper waters, and strong but divergent flows, has made much of this region highly productive. However, the northern reaches of this ecosystem, off northern Labrador, are near the northern extremes of the distribution of many of the most abundant commercial fishes such as Atlantic cod (*Gadus morhua*), the redfishes (*Sebastes spp.*), and haddock (*Melanogrammus aeglefinus*), and productivity (growth and reproduction) is typically at the low end of the range for these species.

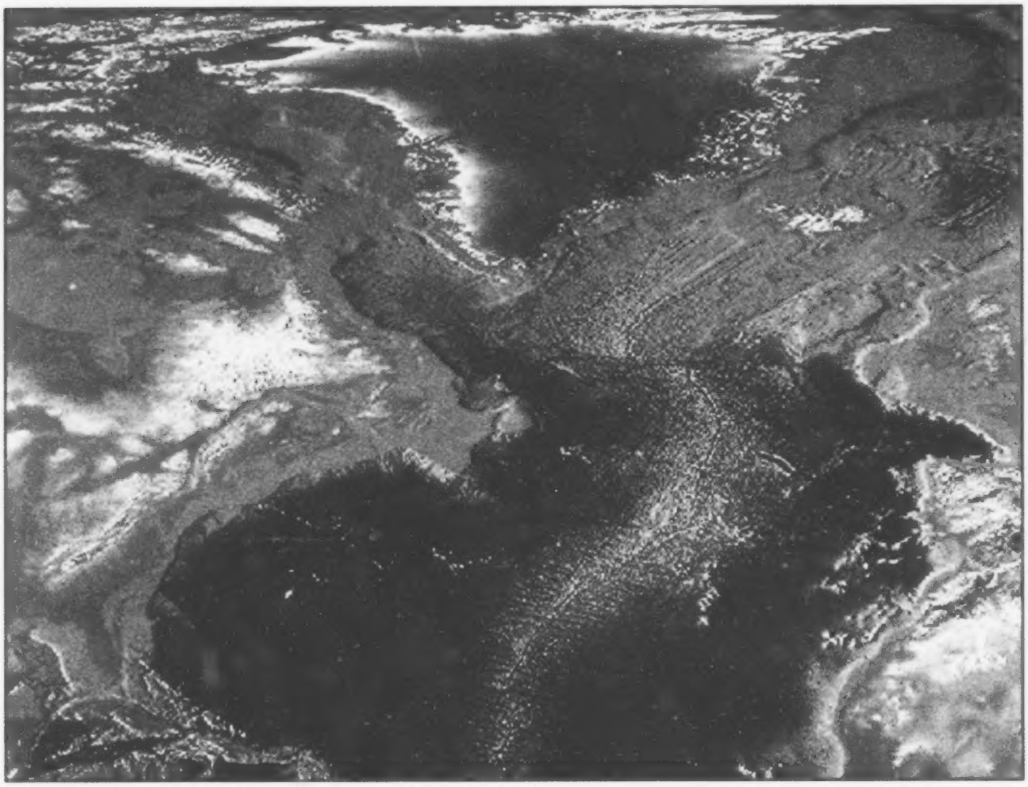
The North Atlantic is a young and productive ocean, at present broadening slowly with the drift of the continents, and hence is biologically poor in species number but rich in biomass. Since the last ice age, which receded approximately 10,000 years ago, the dominant fishes in most continental shelf regions were likely capelin (*Mallotus villosus*) and cod. The historical abundance of each of these species was likely of the order of 2-4 million metric tonnes (t) (perhaps higher for capelin). The dominant marine mammal was the harp seal (*Phocus groenlandica*), whose recent population has been approximately 5-6 million animals. There is a decline in species composition from northern Labrador to the Southern Grand Banks.

The only abundant large gadoid in the north is Atlantic cod, but in the southern regions, haddock were formerly common. Capelin dominates the pelagic fish community over most of the Newfoundland ecosystem, and is the major forage species for fish-eating fishes, marine mammals and seabirds. The seasonal migration and distribution patterns of many of these fish-eaters likely developed and became vitally linked to the patterns of the capelin. It is difficult to overstate the ecological importance of the pelagic fishes, particularly the small silvery capelin. In the southern regions of the Grand Bank and in the region off the South Coast of Newfoundland, capelin give way to another major pelagic species, the sand lance (*Ammodytes dubius*), and to the north off Labrador, there are Arctic cod (*Boreogadus saida*). Atlantic herring (*Clupea harengus*) form a dominant component of the pelagic fish biomass in more southerly regions, and in the warmer Icelandic and Norwegian Seas, but the waters on the Grand Bank and Northeast Coast are too cold for herring to reach such abundance. The dominant crustaceans are snow crab (*Chionoecetes opilio*) and pandalid shrimp (*Pandalus spp.*). In ecological terms, the Newfoundland and Labrador marine ecosystems are simple high-latitude systems, characterized by relatively few species, direct and short food chains, and high levels of abundance and biomass.

A Brief History of the Newfoundland and Labrador Fisheries

Fisheries in Newfoundland and Labrador coastal waters were prosecuted for the past nine thousand years on a subsistence level by a succession of native North American peoples (Major, 2001). Their harvests were almost all along the coastline, and most of their catch was likely Atlantic salmon (*Salmo salar*), Arctic char (*Salvelinus arcticus*), and marine mammals. After the early Norse explorations of the 10th and 11th centuries, it was not until the mid-late 15th century that the first persistent commercial fisheries were prosecuted by Basques in the form of seasonal fishing and whaling stations (the best known being Red Bay, Labrador). Portuguese, French and English adventurers followed, in search of adventure, marine resources and the Oriental spice trade. What they found were enormous shoals of Atlantic cod in the coastal waters around Newfoundland, and this "discovery" led to the modern European era of the cod fishery. By the late 15th century, the Newfoundland cod fishery had become a predominant economic activity in the northwest Atlantic that would be sustained for nearly 500 years (Innes, 1940; Cushing, 1988; Harris, 1990; Hutchings and Myers, 1995).

Figure 1.
The Northwest Atlantic Large Marine Ecosystem
(and the mid-Atlantic to the south).



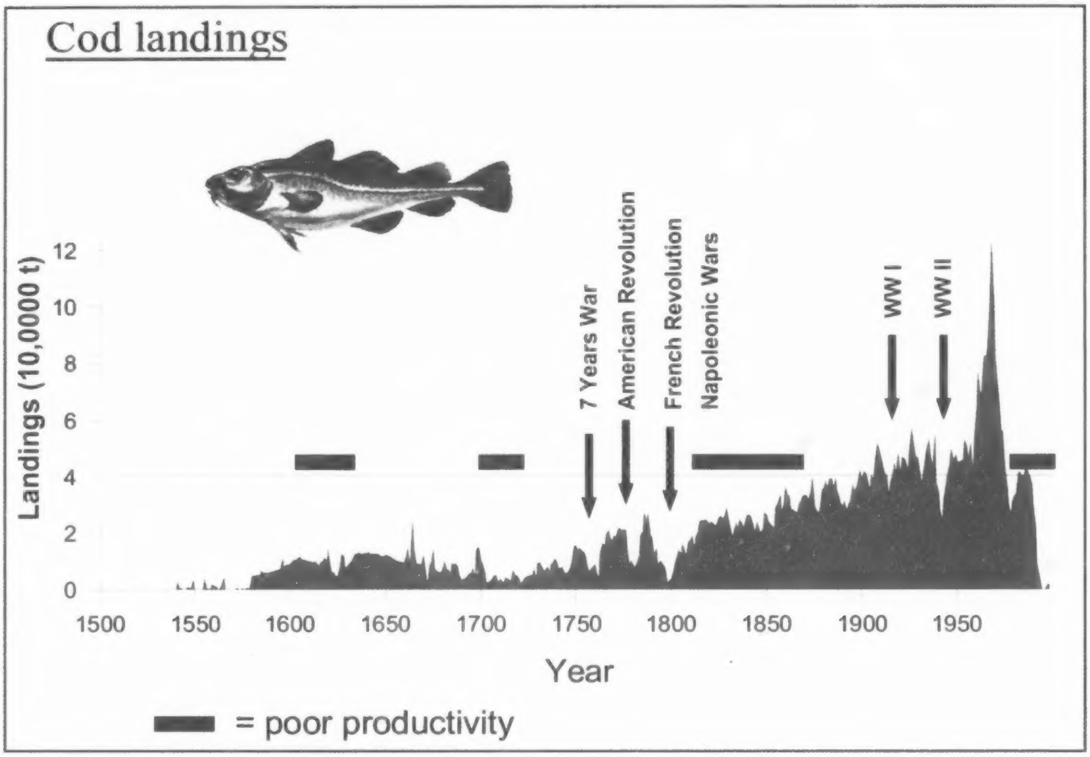
Cod were initially caught with single baited lines, then multi-hooked baited long lines or bultows, with these methods changing little until the 19th century. In the first three centuries of this modern fishery, the main limit on catch was likely to have been effort, whose main regulator may have been the vagaries of European politics (Fig. 2). These included the national policies and wars of France, England, Spain, and the emerging United States and Canada, but also on local responses to various political events. As late as the 19th century, a key restraint was the provision of bait, mostly Atlantic herring (*Clupea harengus*), but also capelin and Atlantic mackerel (*Scomber scombrus*). Provision of bait was used by English authorities to limit the French fisheries which relied on it (Prowse, 1895). During the late 19th century, the introduction of new gear that did not use bait, in particular the cod-trap, changed this situation. Initially, many wanted to ban the trap, which was thought to be too efficient and would destroy the cod. The 19th century also ushered new fisheries into this ecosystem, in particular for harp seals, and the numbers of people that settled in Newfoundland and were dependent on the fishery steadily increased.

The 20th century brought changes to society and the fisheries scarcely imaginable a century earlier (e.g., Hutchings and Myers, 1995). Vessel changes from sail and oar to steam then diesel, and rapid introductions of side and pair trawlers, stern otter trawlers, cotton and then mono-filament gill-nets, and Japanese cod-traps, led to extravagant increases in fishing power. In the last half of the 20th century, the traditional Newfoundland cod fisheries declined precipitously after an onslaught of fishing by newly arrived European-based trawlers in the 1950s and 1960s. At the same time, new technologies and changing markets spurred new fisheries. Former subsistence and bait fisheries for herring and capelin were greatly increased as reduction[1] fisheries for fish meal. Fisheries for redfish, haddock, and flatfishes increased as markets for fresh fish displaced salt fish, which had been the sole product of the Newfoundland and Labrador fisheries for hundreds of years. In the 1970s, political pressures led to the closures of the traditional fisheries for marine mammals (seals and whales). Cod continued to decline, and moratoria on cod fisheries were in place in all Canadian Newfoundland waters by 1993 (Rose et al., 2000). Entirely new fisheries were developed on burgeoning populations of shrimp and snow crab, and these prospered in the 1990s.

The Cod Fisheries

The Newfoundland cod fishery began in earnest in the mid-16th century (Fig. 2). The early rise in the fishery can be attributed mostly to the French, whose vessels almost certainly outnumbered those of England and Portugal for many years (Major, 2001). Catches increased rapidly in the last quarter of the 16th century to levels exceeding 100,000 t per annum. Despite numerous French and English disputes, the razing of St. John's and many other English settlements in the late 17th century, and a general lack of support for settlement by either side, catches remained around 100,000 t for much of the 17th century. However, in the early 1700s, catches declined for a period of almost two decades, in concert with severe cooling of the ocean (Innes, 1941). The cod fisheries had collapsed, and resulted in the first massive out-migration of Newfoundlanders as a consequence of a failing fishery (Major, 2001). During the latter half of the 17th century, there began an increasing trend in landings which generally continued until the mid-20th century. Catches peaked in the mid-1960s at over 1 million t per year. For over 200 years annual catches had exceeded 200,000 t. **In total, approximately 100 million t of cod have been taken from Newfoundland waters since 1500. It is of great significance that approximately one-half of the 100 million t was taken between 1500 and 1900, the other half between 1900 and 1993.** Cod stocks declined abruptly in the 1970s, and after a brief respite, declined again in the 1980s and 1990s. Stock levels were almost certainly at their all-time low in the mid-1990s even after all fisheries were closed in 1993. The southern Newfoundland fishery (3Ps) reopened in 1997 with a quota of 10,000 t, and currently has a quota of 15,000 t. The northern cod (2J3KL) has had a very limited index fishery since 1999, with a quota of 5,500 t in recent years. The northern Gulf cod (3Pn4RS) has had a similar fishery of 7,000 t in recent years. The Grand Banks cod (3NO) is still under moratorium.

Figure 2.
Newfoundland and Labrador cod landings from 1500 to 2000 (equivalent to fresh landed weights). See Appendix I for data sources.



From 1500 to 2000, variations in the cod landings can be attributed to several factors. The rises and falls of the cod harvest in historic times were likely unrelated to any large-scale depletion (Pope, 1995). No doubt local variations in landings occurred, likely resulting from year-to-year changes in cod movements and distributions, and perhaps some localized depletion. However, most of the fluctuations can be attributed to other human activities and circumstances, such as wars, market changes and politics, or ocean climate changes that influenced either availability or productivity or both. The chronology of European and American wars is evident in the catch series, with major declines corresponding to the 7 Year War, the American Revolution, the French Revolution and Napoleonic Wars, and WWI and II (Fig. 2). Environmental influences on productivity are also evident. The poor catches of the early 1700s coincided with very cold conditions across northern North America (D'Arrigo and Jacoby, 1992) (Fig. 2). All of the "cold" periods of the past 500 years coincide with periods of reduced or non-increasing landings relative to other factors known to influence landings (the mid-19th century shows stable landings but this was a period of great increase in settlement and fishing effort, see Sette, 1929; Mannion, 1990; Hutchings and Myers, 1995).

Although stock abundances cannot be inferred directly from the cod landings data, there is little evidence in historical times to suggest either growth or recruitment overfishing.[2] However, beginning in the 20th century it is likely that both types of overfishing occurred, and this is particularly the case following the huge harvests of the 1960s. Although there is only a single event of this magnitude in history, and hence any statistical arguments are groundless, the subsequent decline in landings inarguably related to those high harvests (e.g., Rose et al., 2000; Rice, 2002).

The influence of technology on the landings history is easy to describe but difficult to quantify. Technology changed little from the 16th to 19th centuries. The introduction of the cod trap in the late 19th century may have contributed to the more stable landings of the first half of the 20th century, but this was also a period of high productivity (Fig. 2). The situation is clearly complex and there is no single factor that can account for all catch variation. Although we cannot assume that catch relates directly to abundance, there is evidence that catch did relate to availability of cod to the largely coastal fishery in some periods (e.g., early 1700s). However, the dominant peak in cod catch in the 1960s can be attributed with some authority to the advent of factory trawlers in Europe and their arrival in Newfoundland and Labrador waters. As a direct consequence of this new and unsustainable fishery, more than 5 million t of cod were taken during the 1960s alone.

The reconstruction of the historical catches contains several uncertainties. In general, the farther back in time, the greater the uncertainty. Catch records prior to the late 17th century are sporadic and hence should be considered rough estimates only. However, the present series suggests relatively large catches as early as the 17th century. In contrast, Hutchings and Myers (1995) derived a catch series for northern cod that suggests that catches were comparatively low (averaging <10,000 t) throughout the 17th century. However, Cushing (1988) suggested that annual catches in Newfoundland waters in the late 1600s were of the order of 200-250,000 t. Pope (1995) also suggested that catches were of the order of hundreds of thousands of tonnes between 1660 and 1700, and disputed the data compiled by Hutchings and Myers (1995). The series compiled here from the English and French fisheries is in close agreement with the higher estimates given by Pope (1995) and Cushing (1988) for specific years of the late 17th century. There is more general agreement that the catches of the early 1700s were very low. Conditions for people dependent on the cod fishery in northeastern Newfoundland were desperate in the 1710s (Innes, 1940). Cod fisheries also failed in the winters of 1714-15 in northern Norway with similar effects on fishing communities (Clarke, 1967).

Pulse Fisheries and Commercial Extinctions

Commercial extinction of a species or local stock occurs when it is no longer economically worthwhile to fish. This is not true or biological extinction, but rather occurs at higher population levels and is dependent on the economic conditions of the fishery. Haddock was commercially extinct by 1960 in Newfoundland waters. Once abundant populations in the southern regions were reduced to remnant states that have not regained their former abundance and support no fishery (Fig. 3). There remains a tendency in the fishing industry to conduct pulse fisheries that target relatively strong year-classes whenever they occur, fishing them down to a state of depletion, foregoing any opportunities for these stocks to rebuild. Such strategies are not in the interests of conservation, but appear common in Atlantic Canada. The recent strong year classes of "dwarf" haddock (poor growth) on the eastern Scotian shelf in an ecosystem that has undergone dramatic declines in productivity, have been subject to recent industry lobbying to "get them now", and hence repeat cycles of pulse fishing, with little allowance for rebuilding.

The redfishes also became commercially extinct in the northern ranges off Labrador and the northeast Newfoundland shelf in the 1960s (witness the spike just prior to the cod spike, Figs. 3,4). This was almost entirely a Russian fishery (Trevin and Panechuk, 1963). There has been no recovery. Southern populations have fared somewhat better, but population and catch levels are still thought to be relatively low, and the single remaining population of *Sebastes mentella* has not been bolstered by any significant recruitment since 1980.

Herring was fished for food and bait for centuries, and data recording this goes back well into the 19th Century (Fig. 3). Catch levels never exceeded 25,000 t and were apparently sustained. However, the reduction fisheries of the 1960s led catch levels upwards to > 100,000 t per annum, with a peak of over 150,000 t in 1968. Since then, herring have not become commercially extinct in all areas, but catch levels are well below those of historical times.

Extinctions

Two sea birds have become extinct during the period of European-based fishing activities. The Great Auk was slaughtered for eggs and food without restraint by explorers and fishing parties at its nesting grounds, particularly at Funk Island off the Northeast Coast of Newfoundland. By the mid-1800s, the Great Auk was extinct in these waters, with total extinction being perpetrated in Iceland some years later. The Labrador duck was last observed in New York state in 1878, presumably on its southern migration. No fishes or marine mammals have become extinct.

Figure 3. Landings of all species in Newfoundland and Labrador from 1500 to 2000 (landings in 100,000 t).

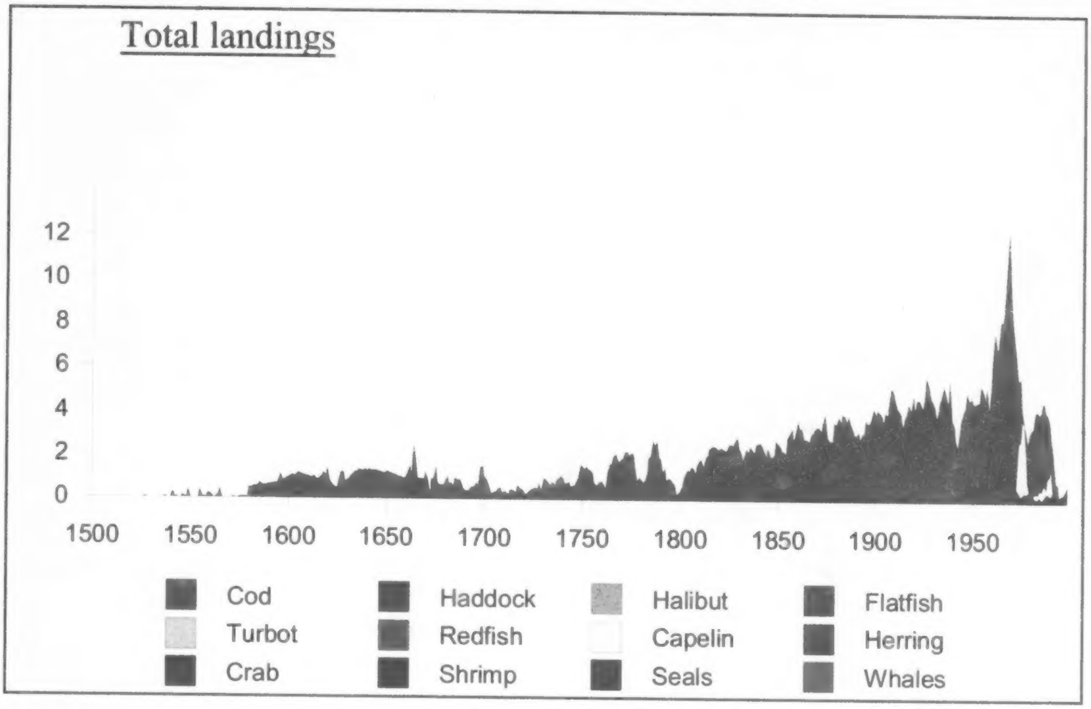
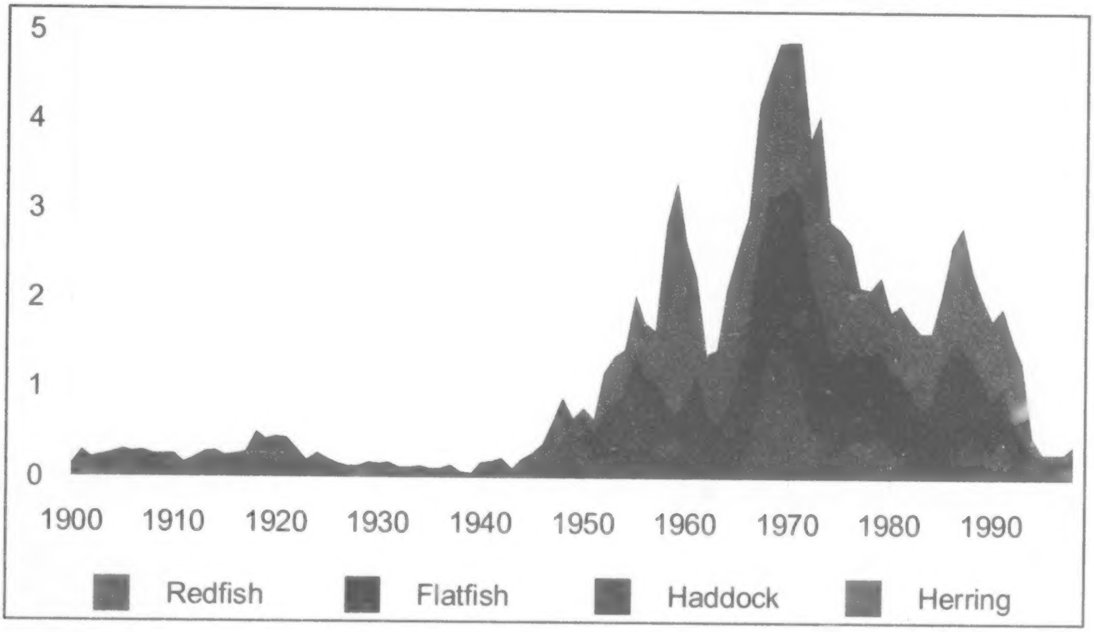


Figure 4. Landings of species newly or pulse-fished in the 20th century in Newfoundland and Labrador waters (landings in 100,000 t).



Other Historical Fisheries

Seal harvest data have been recorded beginning in the early 19th century at the commencement of the commercial hunt (Figs. 4,5). Seal harvest peaked in the mid-19th century at approximately 600,000 animals and declined thereafter until 1972, when a moratorium was imposed on the seal hunt. Since reopening the hunt in the late 1990s, the Newfoundland catch has risen to approximately 300,000 animals.

Whales were commercially harvested from Newfoundland and Labrador whaling stations beginning in 1898 (Fig. 3). The total catch fluctuated greatly until a ban on whaling in 1972.

Catches of capelin were historically very low in Newfoundland waters. The annual subsistence harvest was likely no more than 20,000 t for human consumption and fertilizer (likely 0.01-0.02 per cent harvest rate based on an historic abundance of 1-2 million t). However, during the 1960s and 1970s, the Russian catch increased dramatically, with a peak in the mid-1970s of over 350,000 t (Fig. 3). Capelin fisheries have declined in the 1990s in concert with very poor growth and marked deviations in capelin distribution to the south (Frank et al., 1996; Carscadden et al., 2000). The present fishery is market driven and recent markets have been poor (five cents per pound in 2002).

Fisheries for pandalid shrimp and snow crab are not historical fisheries in Newfoundland and Labrador. These fisheries began only in the late 1960s and 1970s and have since increased substantially. Landings have increased to more than 70,000 t for shrimp and 50,000 t for crab in the late 1990s.

Fisheries Yield

Overall yield from this ecosystem generally increased until the mid-20th century and since then has been steadily declining (Fig. 6). The composition of the yield changed from historical exploitation of the upper trophic levels (seals and cod), with minor bait and food fisheries for capelin and herring, to mid-trophic levels in the mid-20th century (cod, haddock, flatfish, redfish), to lower trophic levels and pelagic and demersal planktivores and detritivores in the late 20th century (herring, capelin, shrimp, and crab). In the 1990s, shrimp and crab comprised over 60 per cent of the total yield. At present, total yields are less than half of historical long-term averages over the period from 1750 to 1950.

The Newfoundland and Labrador ecosystems have been subjected to a version of "fishing down the food web" (Pauly et al., 1998), although in this case it appears to be more a "fishing out the middle". Such reduced ecosystems may decline in robustness, to environmental and human perturbation.

Figure 5. Seal landings in Newfoundland and Labrador from 1500 to 2000 (landings in 100,000 seals).

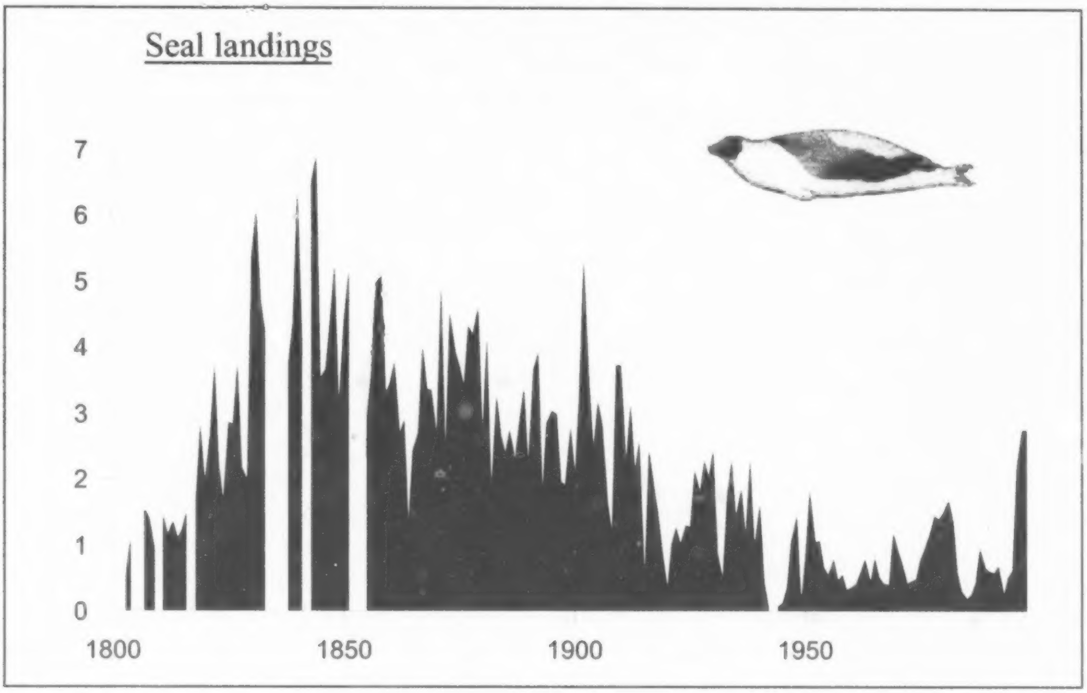
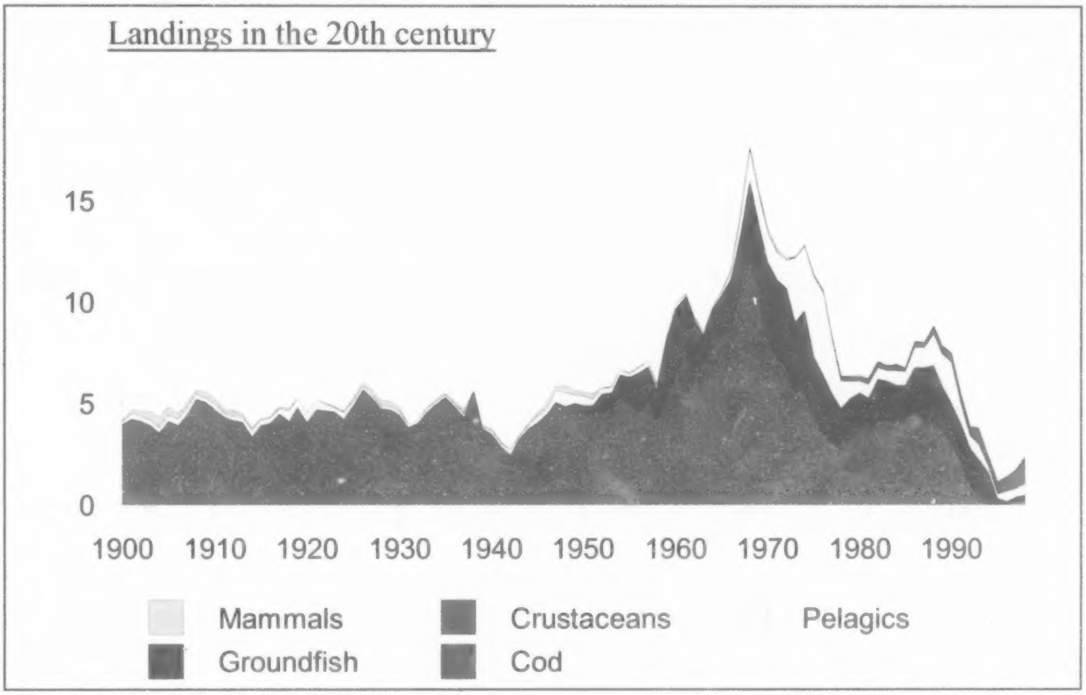


Figure 6. Newfoundland and Labrador landings from 1900 to 2000 (landings in 100,000 t).



The Decline of the Newfoundland Cod Stocks and Other Species

There are four cod stocks in Newfoundland and Labrador waters. Most, if not all, are comprised of biologically distinguishable sub-stock components (Fig. 6). The four stocks are:

1. NAFO subdivisions 2J, 3K, 3L, the "Northern" cod
2. NAFO subdivisions 3N, 3O, the "Grand Banks" cod
3. NAFO subdivision 3Ps, the "South Coast" cod
4. NAFO subdivisions 3Pn, 4R (and 4S adjacent to Quebec), the "Northern Gulf" cod.

The Newfoundland cod stocks are not a single monolithic biological entity but are comprised of many biological sub-units of this species that have evolved with varying degrees of separation to local environmental conditions (Templeman and Fleming, 1962; Templeman, 1974; 1981; Lear, 1984; 1981; deYoung and Rose, 1993; Taggart et al., 1994; Brander, 1994; Ruzzante et al., 2001; Robichaud and Rose, 2001; 2002; Beacham et al., 2002). The NAFO-based management areas represent these units only roughly. Within most of the management areas there are or were several sub-units, some of which may have been over-fished in historical times. However, the major over-fishing of the cod stocks took place in the last half of the 20th century, and this coincides almost exactly, although coincidentally, with Newfoundland confederation with Canada. The increasing over-fishing and decline of the northern cod is the best known example of this 20th century debacle, but it is by no means the only one.

All Newfoundland and Labrador cod stocks declined in the late 1980s and early 1990s, although to differing extents. The 3Ps stock rebuilt relatively quickly in the 1990s, and currently has strong prospects for growth (SSR, A-02, 2002). The other stocks have shown disparate levels of lesser rebuilding. The northern Gulf of St. Lawrence stock enjoyed modest population growth despite elevated natural mortality, poor individual growth and poor recruitment over most of the 1990s (SSR, A4-01, 2002), but may have since declined. The northern cod overall remains at very low levels (1-3 per cent of historical levels), although the coastal substock component in Trinity and Bonavista Bays grew and recruited reasonably well despite high adult mortality with relatively strong year-classes in 1990 and 1992 (Rose, in press). The Grand Banks cod remain in a highly depressed state. The northern cod was by far the largest cod fishery in Canadian waters prior to the 1990s and hence this report will focus on that stock.

The Causes and Effects of the Decline of the Northern Cod

For 450 years, the northern cod fishery was a seasonal enterprise and largely restricted to coastal waters within sight of land. This was true of most Newfoundland and Labrador fisheries, with the exception of the Grand and St. Pierre Banks cod fisheries, where very shallow waters well offshore enabled handline fishing. Weather, gear and nature dictated conservation. However, after the Second World War, and the advent of large ocean-going factory freezer trawlers in Europe, the entire focus of the northern cod fisheries changed. For the first time in all the long history of this fishery, vessels could fish year-round in these waters, taking their catch directly back to Europe and Russia (most of these fisheries were prosecuted by Russian, East German, French, and Portuguese vessels). The fishing power and capacities of these fleets dwarfed all previous fisheries in Newfoundland and Labrador waters. The Russians and then Eastern Block allies located the then large redfish stocks off the Hamilton and other Labrador Banks in the late 1950s (Travin and Pechenik, 1963). These fleets proceeded to reduce these stocks to remnants of their former abundance, and these stocks have yet to recover to any appreciable extent, even after some 50 years. By the mid-1960s, the redfish, which a long-lived, slow-growing and low productivity species that cannot endure high levels of fishing pressure, were no longer commercially viable, and these fleets, which had by then located the over-wintering and spawning concentrations of the bank components of the northern and Grand Banks cod stocks, began to harvest these cod stocks with their large trawlers with a vengeance. The Hamilton Bank was lit up with the lights of these vessels, particularly in January, when cod are most aggregated and vulnerable to fishing. So began the demise of the over-wintering and spawning aggregations of the same cod that had supported the Newfoundland and Labrador fisheries for four-and-a-half centuries. Total annual catches exceeded half a million t during the mid to late 1960s (Fig. 2). The 1960s was a relatively warm period likely characterized by high cod production, certainly sufficient to enable the harvest of over 5 million t of cod in that decade. However, high productivity or not, such harvests were not even close to being sustainable, and by the early 1970s, all cod fisheries were in decline, as a direct consequence of this over-fishing (Rose et al., 2000; Rice, 2002). No fish stock on earth could have sustained such an incessant slaughter. Of all the calamities that have befallen the Newfoundland and Labrador cod stocks over five centuries, there is nothing to compare with this event.

In the mid-1970s, most Newfoundland and Labrador cod stocks were at the lowest levels observed to that time. Nevertheless, optimistic projections were made of the likely growth of these stocks in the absence of foreign fishing (Kirby, 1982). There was little thought of the long-term damage to stock productivity that may already have come into play by the over-fishing of the 1960s, and there were tacit assumptions that recruitment evident in earlier years would be matched in the 1970s. With a lower level of fishing, it was firmly believed that there would be quick and relentless growth in the stock (see Blackwood, 1996). At first, such euphoria gained some support, as in the late 1970s there were two strong year classes produced by the remaining fish in the northern stock (which were distributed to the north and comprised a spawning component on the Hamilton Bank, see deYoung and Rose, 1993). This event unfortunately appears to have given credence to and increased the momentum of the "quick growth" notions of that era, and led to an entrenchment of gold rush economics that in turn led to rapid expansion of Newfoundland and Nova Scotia-based fleets and plants. It was not to last long. By the mid to early 1980s, inshore fishermen were noticing that cod sizes were declining, and increased effort was needed to maintain catch levels (Hutchings and Ferguson, 2000). However, by this time, DFO science had become unofficially committed to the Canadian trawler fleet data, and catch rates of this fleet continued to increase. Such increases were interpreted as evidence of increasing abundance in the northern stock, which was incorrect (see Rose and Kulka, 1999). The increase in trawler CPUE (catch per unit effort) was directly responsible for the overly-optimistic output of the population models used to assess stock status in the mid to late 1980s (Baird and Bishop, 1986). During this period, there was dissension among scientists about the state of this stock (eg. Winters, 1986; Keats et al., 1986), but this went largely unnoticed at the time as a consequence of the "back room" nature of the stock assessments of that era, and the lack of a credible independent fisheries science program in Newfoundland and Labrador. It is also ironic that the DFO cod surveys of the 1980s indicated very modest increases in the northern cod stock, but these data were discounted in favor of the quickly increasing trawler catch rates. Unfortunately, an anomalously high survey result in 1986, which occurred for reasons still largely unknown, gave support to the optimistic view of northern cod and a short-lived continuation of what were unsustainable harvest rates. The trawler companies were not neutral during these controversies. As late as 1989, an official release stated "our captains are convinced that northern cod are as plentiful as ever offshore and our vessels have few problems catching their trip allotments throughout the year" (1989 memorandum to the DFO from National Sea Products, Lunenburg, N.S.).

Figure 7. Map of the Northwest Atlantic Fisheries Organization divisions and the general bathymetry.

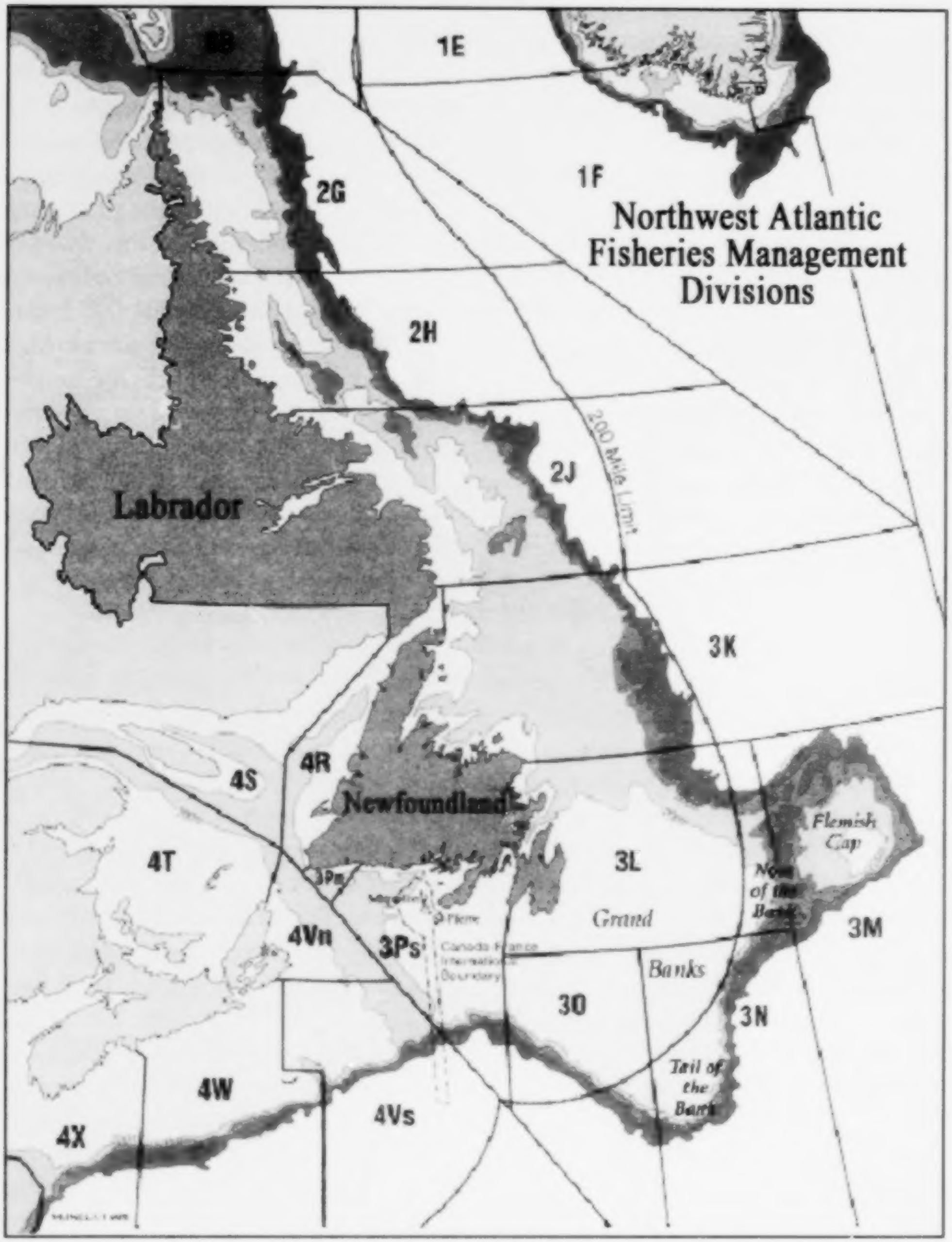
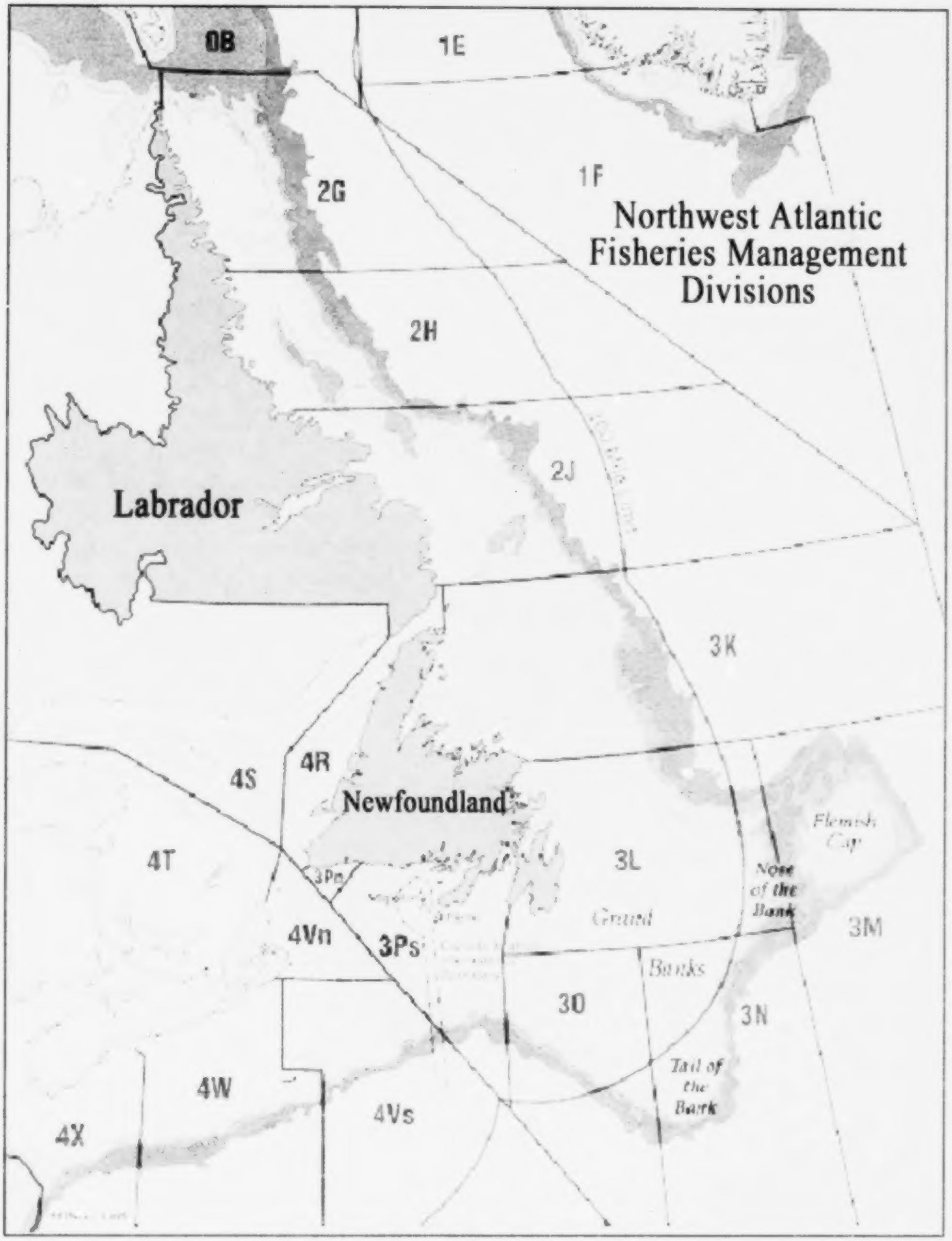

0B
1E
1F
Northwest Atlantic Fisheries Management Divisions
2G
2H
2J
200 Mile Limit
Labrador
3K
4S
4R
Newfoundland
Flemish Cap
4T
3Pn
3L
Nose of the Bank
Grand
Banks
3M
4Vn
3Ps
Canada-France International Boundary
3O
3N
Tail of the Bank
4W
4Vs
4X

Figure 7. Map of the Northwest Atlantic Fisheries Organization divisions and the general bathymetry.

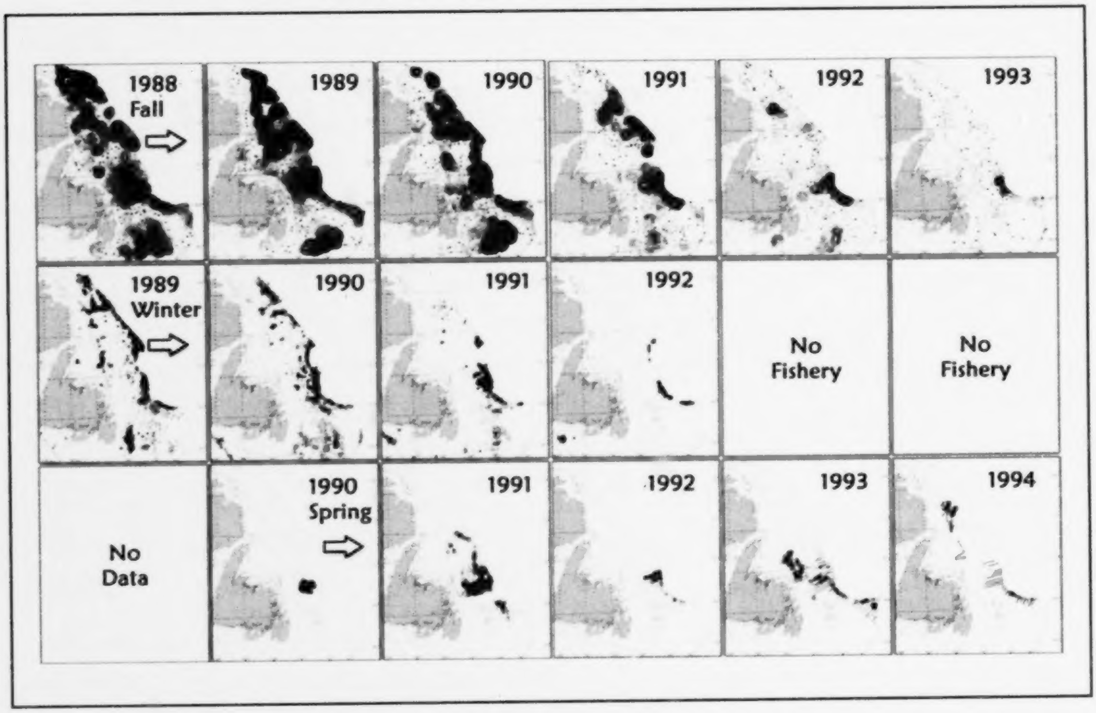

0B
1E
1F
Northwest Atlantic
Fisheries Management
Divisions
2G
2H
2J
Labrador
3K
4R
4S
Newfoundland
4T
3Pn
3L
Flemish Cap
Nose of the Bank
3M
Grand
Banks
4Vn
3Ps
3O
3N
Tail of the Bank
4W
4Vs
4X

By 1989 and 1990, it was increasingly clear that the northern cod was in a serious state of decline. Equally as alarming, the ecosystem was changing towards much less productive conditions. Early evidence of this ecosystem change came in the form of swift and unexplained (to this day) declines in capelin growth, distribution and abundance (Frank et al., 1996; Carscadden and Nakashima, 1997), and declining growth and distributions in cod. In the spring of 1990, the northern cod were concentrated in the southern part of the range known as the "Bonavista Corridor" (Rose, 1993); (Fig. 7). What was interpreted as a warning of declining conditions and changing migration patterns for cod (Rose, 1993, deYoung and Rose, 1993) was somehow transformed to an indication of abundance in cod by the time it reached the Deputy Minister. By 1991, most of the extant fish were concentrated just north of the Grand Bank on the border of NAFO 3K and 3L (Rose, 1993). This southerly concentration of the fish and southerly migration led to the best inshore fishery in a decade in the southern portions of the northeast coast (deYoung and Rose, 1993). The remaining fish were sufficiently concentrated (Atkinson et al., 1997) to become even more vulnerable to both the trawler and inshore fisheries (Rose et al., 1994). Trawler CPUE continued to increase, right up until 1992 and the closure of the fishery (Rose and Kulka, 1999). Many other species followed suit, and these changes have been summarized in several recent papers (e.g., Rose et al., 2000; Rice, 2002; Drinkwater, 2002). Controversy ensued about the cause of the changes in cod (ironically not in capelin, whose changes attracted only limited research but were arguably more important to what was to come in the ecosystem). An early report suggested a commercial annihilation of cod (Steele et al., 1992), which was an extreme but not entirely unfounded view. How this could have happened was controversial. Cod distribution changes were interpreted as a fishing-down of the northern groups (Hutchings and Myers, 1994; Hutchings, 1996), or, alternatively, as a true distribution shift which then exacerbated the over-fishing by concentrating the remaining fish (deYoung and Rose, 1993; Rose et al., 1994). Rose et al. (2000) provided additional evidence from anti-freeze physiology, growth rates, and meristics (vertebral counts), that the distribution shift was real, and two recent reviews tend to support that view (Rice, 2002; Drinkwater, 2002). The early debates were followed by "who dunnit" controversies and finger pointing (e.g., Hutchings et al., 1997a,b; Doubleday et al., 1997). However, these controversies were more distractive than helpful. **The real issues were that scientific understanding of the cod fisheries had been inadequate and "signals" of change in the northern cod ecosystem were not sufficient to trigger any management action whatsoever.** In fact, the Newfoundland Inshore Fishermen's Association lawsuit to stop the trawler fishery on pre-spawning and spawning cod was fiercely rebuffed by DFO in 1989. By that time, many in DFO science had their heels firmly dug in. There was no effective opposition at the time either within or outside DFO science. It is important to point out that the barrage of scientific papers condemning DFO for mismanagement of the northern cod did not appear until the mid to late 1990s, in otherwords in hindsight (e.g., Hutchings and Myers, 1994; Walters and Maguire, 1996, and many other papers). There was far less foresight from science. Nevertheless, there is evidence that at least some of the early signals of ecosystem change and cod decline (and other species) were recognized by fishermen and science. However, this recognition was insufficient to influence management decisions, and some signals were grossly misinterpreted somewhere between the ocean and the offices of decision makers in Ottawa.

The destruction of the northern cod began and ended with foreign fisheries. In the early 1990s, the remaining cod that were concentrated in northern 3L on the northern fringes of the

Grand Bank were moving further east and towards the "Nose" of the Bank. In the spring of 1993, during a survey of post-spawning distribution, the only large aggregation of cod that was found was located outside the EEZ on the "Nose" of the Bank (Rose et al., 2000). The area was at the time being fished by foreign trawlers (G.A. Rose, personal observations). Under the current NAFO management regime, there was little if anything that could be done to stop the fishing of what may have been the last great northern cod aggregation by foreign trawlers. In a similar acoustic survey in the spring of 1994, not a single cod aggregation could be located, either inside or outside the EEZ. It is important to note that in 1991, when the northern cod was declining at an alarming rate, over 51,000 t of cod were reported caught on the "Nose" of the Grand Bank, primarily by the newly arrived Spanish trawler fleet (Shelton and Lilly, 2000). It is inconceivable that this amount of fish could be caught in such an area without an active movement of fish into the area (Rose et al., 2000).

Figure 8. The decline of the northern cod in the late 1980s and early 1990s. Top panels are the DFO fall trawl surveys. Middle panels are the winter trawl fishery. Bottom panels are spring acoustic cod densities.
Read chronologically down, then across. (from Rose et al., 2000).



In summary, although it is temptingly simple to describe the decline of the northern cod solely as a result of fishing (e.g., Hutchings, 1996; 1999), such an explanation is unhelpful in understanding how this could have occurred in fisheries thought to be well-managed and informed by state-of-the-art science. A simplistic explanation also provides no insight into the several stages of the decline (e.g., Rice, 2002), the ecological context of the decline, or how fisheries science and management should respond to environmental change, the current state of the stocks, or the future. The most recent scientific reviews have concluded that environmental changes were important to various aspects of the decline (e.g., Rice, 2002; Drinkwater, 2002), as was the lack of an ecosystem-basis for science and management (Shelton and Lilly, 2001; Rose et al., 2000). There is no argument from anyone that fishing caused most of the mortality. The details aside, the most striking feature of the 1980s was the failure of fisheries science and management to prevent over-fishing, clearly their mandate, and that is of most interest. It appears that scientific and management systems under the DFO and NAFO were unresponsive to impending changes both in the ecosystem and in the stocks as they were occurring, and despite some scientific warnings and even court challenges, and cheered on by some large fishing companies, allowed and even enhanced the playing field for over-fishing until the stock was nearly gone. **If we are to do better in the future, the entire system of science and management must be called into question, and likely reformed if Newfoundland and Labrador's place in Canada is to be strengthened.**

The Northern Cod Since the Moratorium

There was some notion that the northern cod might rebuild quickly after the moratorium on fishing (Lear and Parsons, 1993). This notion was challenged very early by deYoung and Rose (1993), who predicted that because of changes in the ecosystem, and the distribution of cod and reduced recruitment, that rebuilding would take a much longer time than indicated under the old production paradigm that assumed that removal of the fishery would result in an immediate increase in the stock. However, throughout the 1990s, predictions of relatively quick recovery continued to be recorded in the scientific literature. These were based on the simple rationale that fishing was the sole problem (e.g., Hutchings and Myers, 1994), hence removal of the fishery would result in quick rebuilding. Roughgarden and Smith (1997) indicated that the northern cod would increase to well over a million tonnes by 2000 in the absence of fishing, and Myers et al. (1997) made somewhat more conservative estimates but still predicted a relatively quick rebuilding. These quick-fix models were based on the notion that population levels of cod were determined entirely by fishing, and that no other factors were of much importance, and also that fishing had no long-term or "ecosystem" impacts that might influence the abilities of populations to grow. Hutchings (1999) retrospectively suggested that population growth had been slower than indicated by the earlier models that were clearly, by then, overly optimistic, because of bycatch or unknown fisheries. However, rebuilding was proceeding at a faster pace in coastal waters (Rose, *in press*) where unknown catches were likely to be higher (in addition to the legal fisheries), so this explanation seems implausible for northern cod. There was a generic problem, despite different assumptions and outputs, with all the population growth models. All were based for the most part on historical data on cod production, and an assumption that little had changed in the ecosystem that might impact cod rebuilding. In reality, there had been major changes in growth and condition in cod and other species, which slowed dramatically in the 1990s (Drinkwater, 2002). Distribution changes would likely impact recruitment (deYoung and Rose, 1993). Apparent mortality of fish at ages five and six years exceeded any observed historically. Moreover, both theoretical considerations (Frank and Brickman, 2001) and studies at sea on northern cod (Anderson and Rose, 2001) suggested that quick compensation of population numbers may not occur, as a consequence of reduced population richness and the lack of spawning fish in the remaining cod groups. These more ecological approaches are consistent with a decline in northern cod after the moratorium, without invoking additional fishing mortality, as earlier predicted by deYoung and Rose (1993). Furthermore, the most recent evidence indicates that a lack of capelin in this ecosystem is impeding both cod growth and reproductive potential (Rose and O'Driscoll, 2002) and perhaps leading to increased mortality at an earlier age (also see Rideout et al., 2000). To further compound the regime changes in this ecosystem, the growth of the harp seal herd (from 2 to over 5 million) from the 1970s to 2000 has likely depressed the pelagic fishes and made a recovery by the groundfishes problematic. **It is evident now that predictions that ignored "ecosystem" effects had little foundation, and although a detailed understanding of these changes and their effects on the northern cod and other species is still plagued with uncertainties, there can be no doubt that they have occurred.**

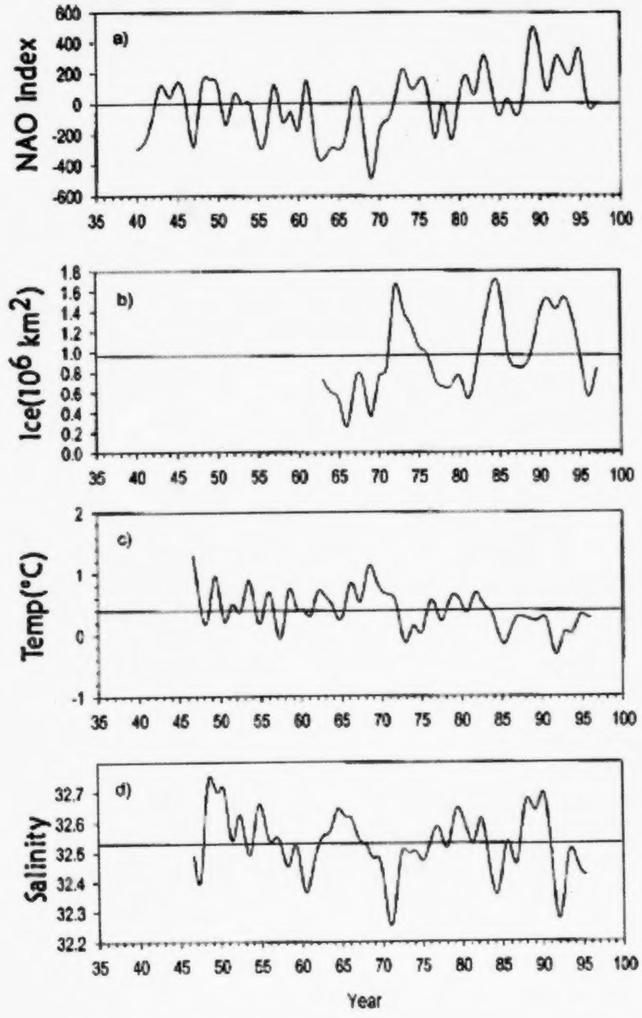
Ocean Climate

Studies by oceanographers indicate that the ocean climate changed in the late 1980s, and that the early 1990s were among the coldest years since detailed records were available (Colbourne et al., 1997; Drinkwater, 2002) (Fig. 9).[3] These conditions reflect the complex oceanographic dynamics of the North Atlantic ocean, with a primary index being the North Atlantic Oscillation (NAO), which measures the difference in pressure between the Azores and Iceland (Dickson et al., 1996). The NAO reached its highest recorded values in the early 1990s (Fig. 9a). A high NAO is typically associated with cooling conditions in the Labrador and northeast Newfoundland marine ecosystems (Fig. 9b,c). The effects that these cooling events had on many species were widespread and considerable (both direct and indirect), and reverberated throughout the ecosystem.

Effects on plankton are for the most part speculative because of the poor record of data on this part of the ecosystem. However, there are indications of major changes in the planktonic community (both species and abundance) between the late 1980s and early 1990s, based on CPR (continuous plankton recorder) data (Doug Sameoto, Bedford Institute, unpublished data).

Environmental changes and ecological anomalies in the 1980s and 1990s (Drinkwater and Mountain, 1997; Sinclair and Murawski, 1997) were involved in the decline in the northern cod (Rice, 2002; Drinkwater, 2002). It is important to note that the environmental changes affected many species other than cod. It is also important to point out that environmental influences provide no excuse for the overfishing or mismanagement of the cod stocks (often given as a reason why environmental effects should be ignored, e.g., Hutchings, 1996). Capelin exhibited slow growth, delayed spawning, and shifted southwards beginning in the late 1980s (Frank et al., 1996; Carscadden and Nakashima, 1997). These changes have been attributed to the cooler waters of the 1990s (Carscadden and Nakashima, 1997). Montevecchi and Myers (1997) documented an abrupt change in food for gannets, from mackerel (*Scomber scombrus*) to capelin, on Funk Island, off the northeast coast of Newfoundland, in 1990. Atlantic salmon (*Salmo salar*) exhibited changed migration patterns in the early 1990s (Narayanan et al. 1997). Arctic char feeding habits changed abruptly off Labrador, where capelin had become scarce (Dempson et al., 2001). Other species, such as American plaice (*Hippoglossoides platessoides*), declined under low exploitation (Bowering et al., 1997). Species as diverse as marine butterflies (*Oikopleura spp.*) and arctic cod, whose historical ranges were much more northerly, became widely distributed in the southern areas in the early 1990s (e.g., Drinkwater and Mountain, 1997). And as we shall see, pandalid shrimp and snow crab populations have surpassed any previously observed levels. **In summary, it is hard to find any aspect of the northern cod ecosystem that did not change in the late 1980s and early 1990s.** Although the fishery no doubt has contributed to and likely caused many of these changes, it is unreasonable and unhelpful not to recognize the important effects that ocean climate change has had on the events that played out in the marine ecosystems of Newfoundland and Labrador in the past decades. **It is arguably even more important to try to understand how ongoing changes will affect their future.**

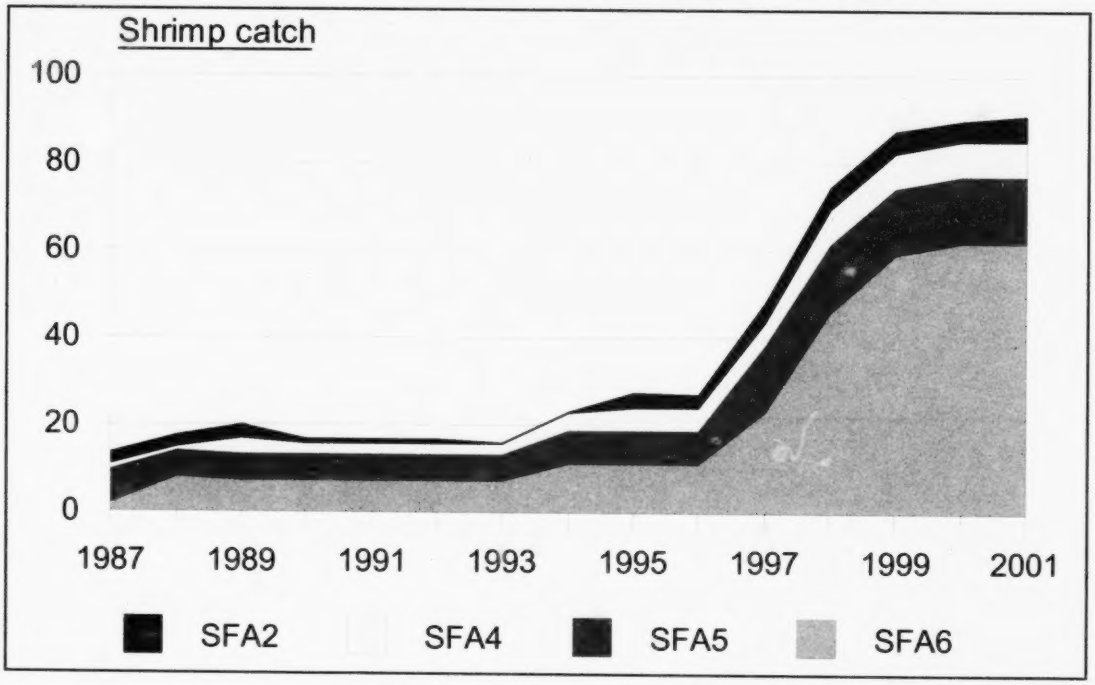
Figure 9. For the period 1940-1997, a) the annual average North Atlantic Oscillation (NAO), b) ice-coverage averaged annually for the Newfoundland and Labrador shelf, c) temperature and d) salinity from the inner Newfoundland shelf averaged over water column and filtered to remove the seasonal signal. Horizontal reference lines in b,c, and d are means.



The Rise of Pandalid Shrimp and Snow Crab

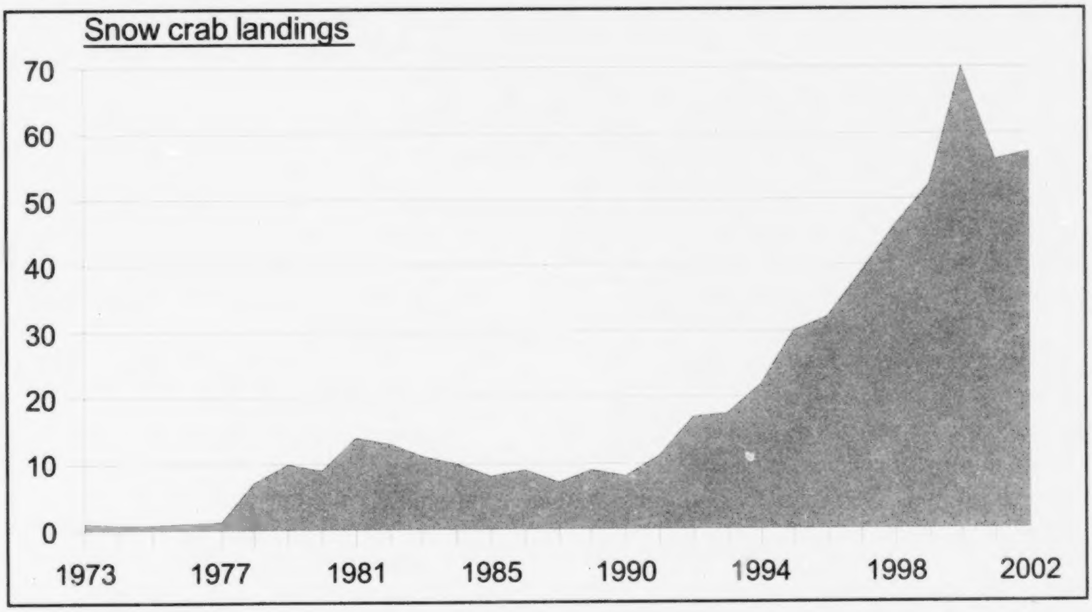
The declines of capelin and cod, particularly in the northern ranges of the northern cod (2J and 3K), were followed by relatively abrupt increases in the populations of pandalid shrimp and snow crab within the former range of the northern cod (see SSR C2-05, 2002). Fisheries for shrimp and crab were not traditional in Newfoundland and Labrador, but developed quickly in the late 1980s and early 1990s. Northern shrimp (*Pandalus borealis*) catches have increased from approximately 15,000 t to 90,000 t from the late 1980s until 2002 in the shrimp areas SFA2 to SFA6 (Fig. 10), which correspond to NAFO divisions 0B to 3K from Baffin Island to the Funk Island Bank (Fig. 7). The fishery is now limited by market conditions. There are early indications that shrimp have become smaller in 2001 and 2002, although it is not known if this is a result of overfishing the larger animals, or a growth decline. There is no evidence from the DFO surveys that the stock biomass is declining, in fact, biomass appears to continue to increase, despite the increasing harvests of recent years. There can be little doubt that shrimp biomass from the Hawke Channel to 3K (SFA6) has increased significantly in the 1990s. This increase is likely an effect of both cooler ocean conditions in the late 1980s and early 1990s that were favourable to shrimp production, and release from predation by cod. It is not possible at present to disentangle these effects, but historical experience and data from this and other ecosystems suggest that northern ecosystems will be dominated either by a pelagic-demersal fish group (e.g., capelin-cod), or by a crustacean group (shrimp and crab), and not by both at the same time.

Figure 10. Shrimp catch in SFAs 2 to 6, from Baffin Island (SFA2) to Hawke Channel and the Funk Island Bank (Hawke + 3K) (data extracted from SSR C2-05, 2002) (catch in 1,000 t).



The snow crab fishery began in 1968 in parts of Trinity Bay, initially as a bycatch in gillnet fisheries for groundfish. Since such humble beginnings the crab fishery has blossomed in the 1990s and now supports the largest fisheries by value and employment in most regions of Newfoundland and Labrador. Annual landings have increased from less than 1,000 t in the early 1970s to 50-60,000 t in recent years (Fig. 11). The fishery harvests only larger males (>95 mm) and hence has a strong conservation base. However, there are many uncertainties in any perceived state of the crab stock. Among these, it is uncertain if over-harvest of males could cause recruitment over-fishing, and only a weak understanding of basic biology and ecology and how crab production is related to oceanographic conditions and interactions with other species. There is a lack of targeted research in Newfoundland and Labrador aimed at answering such questions, and little fishery-independent data with which to assess the stock and judge future production to the fishery, and that is perverse given the importance of snow crab to the fisheries of Newfoundland and Labrador.

Figure 11.
Snow crab landings in Newfoundland and Labrador waters (NAFO divisions 2J3KLNO, 3Ps, 4R) (landings in 1,000 t).



There has been an association between CPUE in the crab fishery and general temperature conditions eight years earlier (SSR C2-01, 2002). Cold conditions result in high CPUE in later years, and presumably this indicates strong recruitment from the colder years, and lesser recruitment in warmer years. Since 1997, temperatures have risen considerably, and consistent with this, pre-recruit and biomass indices estimated from the DFO multi-species survey have fallen off since 1997. This relationship suggests a strong link between crab production and the state of the ecosystem, and supports arguments for ecosystem-based approaches to fisheries management.

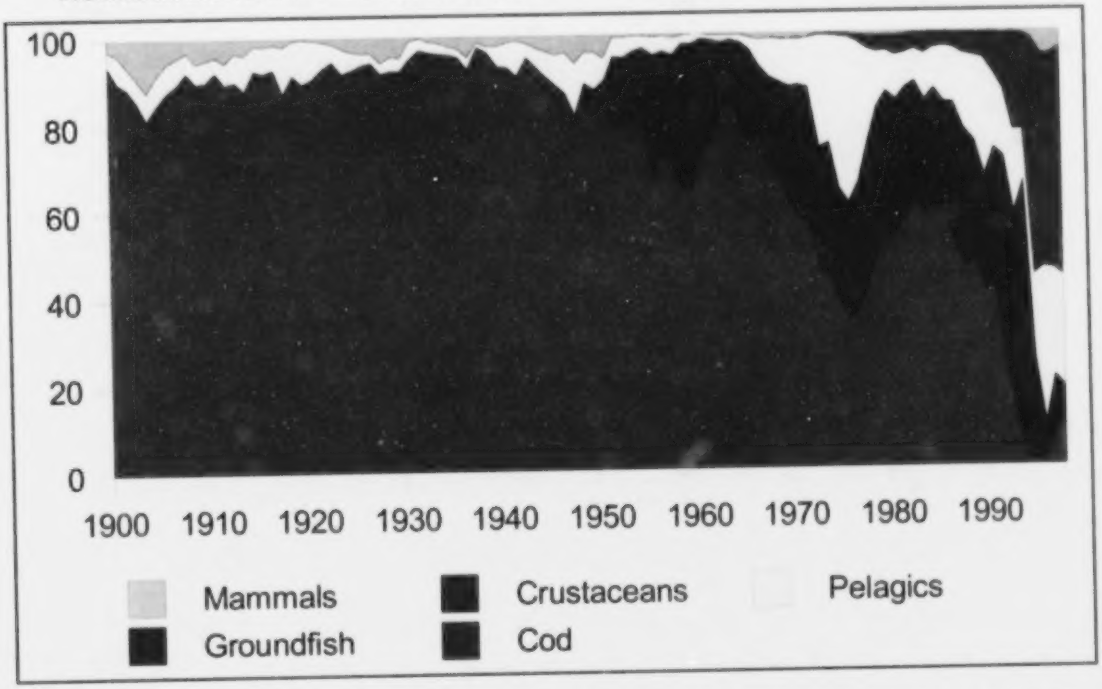
Ecosystem Changes

"Chance favours the prepared mind" – Louis Pasteur

The Newfoundland fisheries were dominated by cod for almost 500 years. No other fishery came close to the landings of cod. Modeling exercises have suggested cod biomass levels were historically in the range of several million tonnes (Pope et al., 1998). It is a reasonable assumption that capelin were at least as abundant as cod, and perhaps twice as much to 5-6 million tonnes. Although a complete reconstruction of the historical composition of the Newfoundland and Labrador marine ecosystems is impossible, nevertheless, there can be little doubt that capelin and cod were far more abundant than at present, and comprised dominant levels of biomass with far-reaching influence on most aspects of the ecosystem. The other fisheries prosecuted historically were bait and food fisheries for herring, capelin, and mackerel, which removed relatively small quantities. Until the 19th century, catches of all species were less than 250,000 t and likely had little effect on ecosystem structure or functioning. During the 19th century, new fisheries for harp seals were introduced, and the large harvests of the mid-19th century may have led to increases in capelin, herring, and cod populations, as these species are prey for seals. Any such increases would have made more cod available to the fisheries. During the 19th century, cod landings did increase steadily.

In the second half of the 20th century, the relative stability in the fisheries changed suddenly. During the two decades of the 1950s and 1960s, cod harvests doubled and the harvest levels of several other species that formerly were fished only lightly or not at all, were greatly increased (capelin, herring, haddock, redfish). Commercial extinctions followed in some areas. A similar pattern was played out with flatfishes in the following decades. In addition, the fisheries on marine mammals, the apex predators, were stopped. An ecosystem that was once harvested heavily at the top (seals and to a lesser extent, whales), moderately in the middle (cod), and trivially at the bottom (capelin and herring), suddenly was harvested not at all at the top, heavily in the middle (cod, haddock, redfish, flatfish), and somewhat more at the bottom. Moreover, this scenario played out in an ocean environment that was becoming cooler and less productive for the dominant species, especially cod (deYoung and Rose, 1993) and capelin (Carscadden and Nakashima, 1997). Such conditions may have favored cold-water species such as snow crab and pandalid shrimp. To compound this effect, the removal of the mid-level predators may have increased survival in crab and shrimp. The combined effects of these events has shifted the ecosystem into a state where overall yield has declined and the trophic pyramid has become an hour-glass, constricted in the middle. The top trophic levels have increased, the middle levels are decimated, and the bottom has changed in dominance. The stability and durability of this ecosystem state is unknown, although the relatively short life cycles of crustaceans suggests this state may be less stable than one dominated by cod and redfish, which have much longer life cycles.

Figure 12. The species composition of Newfoundland and Labrador fisheries landings in the 20th century (%).



Without regard to species, the overall yield from the Newfoundland and Labrador marine ecosystems to the fisheries has declined to less than half of historic levels during the latter half of the 20th century. The fisheries yield from this ecosystem was until recently dominated by cod. One outcome of the decline in cod might have been a replacement with another species with a similar ecological "niche". However, there is little evidence that another species has replaced cod. In contrast, it appears that a new and alternative "regime" comprised primarily of the crustaceans shrimp and snow crab, perhaps dominated by them, has replaced the capelin and cod systems. The shift between these 2 regimes appears to have taken place relatively quickly, within a few years in the early 1990s. A similar shift, but the other way, from crustaceans to a "gadoid outburst" took place in the Gulf of Alaska around 1970 (Anderson and Piatt, 1998). Our knowledge of marine ecology is insufficient to understand why these shifts might take place, or how long they might last, and there is no ability to predict these events. There is no certainty that ecosystem "memory" of previous states will result in a return to former conditions (Rice, 2002). Among possible reasons for ecosystem change are changes in ocean climate, the long term effects of fishing, or certain types of fishing, over-harvest of key components of the ecosystem, habitat damage or change caused by fisheries, and interactions among species. It is well known that cod eat female crab and shrimp, and that harp seals eat capelin, crab and cod, but more complex interactions, such as the possible effects of shrimp on capelin, are only speculative.

In addition to declines in cod, the yields of several other species, including haddock, redfish, the flatfishes, and herring have also declined. The declines in haddock, redfish, and herring directly followed pulse fisheries and do not appear to be related to environmental factors. However, none of these species has recovered to their former abundance levels although it has been almost four decades since the initiation of such pulse fisheries. **The lack of rebuilding without appreciable fisheries is very worrisome, and highlights the potential long-term effects of excessive over-fishing on marine ecosystems.**

Trophic Structure

In addition to a decline in fisheries productivity, there have been fundamental changes in the trophic structure of the Newfoundland marine ecosystem during the past 50 years (Table 1). Classic pyramids of numbers and biomass (Clarke, 1967) once existed in these ecosystems (Fig. 13). Although it is impossible to determine the exact abundance levels of the components of the trophic pyramid, especially for historic times, these levels can be approximated to an order of magnitude in a scaling model. Historically, the numbers and biomass of indicator species harp seals, cod, and capelin conforms to a pyramid. There were likely on the order of 10^7 harp seals, as there are in the late 1990s. Cod numbers based on historical data and simulation models (Pope et al., 1998) suggest on the order of 10^9 cod. Pelagic (capelin, herring) and benthic (shrimp) numbers are more difficult to specify. However, it is likely that capelin alone were on the order of 10^{12} in average abundance (based on several million t of biomass which is similar to the levels in the 1980s, Carscadden and Nakashima, 1997). In the late 20th century, the abundance pyramid has been replaced by an hour-glass form, contracted in the middle. The current abundance levels, to orders of magnitude, of harp seals and the lower levels are similar to historic times (however shrimp are more numerous and capelin less so). The middle levels, which are comprised primarily of groundfish, in particular cod, are at least an order of magnitude less abundant than in historic times.

The earliest fisheries were for whales and codfish at the upper trophic levels. During the 19th century the chief removals from this system were still from the upper trophic levels (harp seals and cod). In total, approximately 100 million t of cod have been removed from this system since 1500. By the end of the 20th century, the cod had been reduced to a few per cent of their former abundance. It is likely that a revised food web now exists which is sustaining higher levels of top predators (e.g., seals) at the expense of mid-trophic level demersal fishes. Shrimp and crab are currently the chief components of the harvest, but their biomass is much lower than that of cod. At upper trophic levels, protection of species from harvest has led to population increases. In particular, harp seals doubled their numbers in two decades from 1977-1997 and have reached levels of 5-6,000,000 animals. In addition, fisheries on lower trophic levels are at all-time highs, despite the reductions of herring following overfishing in the 1960s and 1970s, and the reductions of capelin in the 1990s.

In conclusion, the Newfoundland marine ecosystems have undergone a regime shift in the 1990s, as a result of the primary effects of the fisheries and of oceanographic changes (Sinclair and Murawski, 1997), and secondary effects of species interactions caused by decreases in some species and increases in others. A system that appeared to be relatively stable over a period of 450 years, despite some climate changes during that period (but without year-round mobile fisheries), and characterized by dominant species harp seal, cod, and capelin, has been jolted into a state where the middle part of the food web has been severely diminished, and lower parts changed to an entirely different form. A major concern is that overall productivity, at least in terms of commercial landings, appears to have declined considerably.

A priority for fisheries research should be investigations of these ecosystem states, their durability, and the relationships between ocean climate and distribution and abundance of the dominant species of both the historical state (cod and capelin) and the current state (shrimp and crab) and what might cause such regime shifts between these or other states.

Figure 13. Historical (top) approximations of the biomass pyramid in the Newfoundland and Labrador ecosystems, and the more hour-glass shape of its current state (bottom).

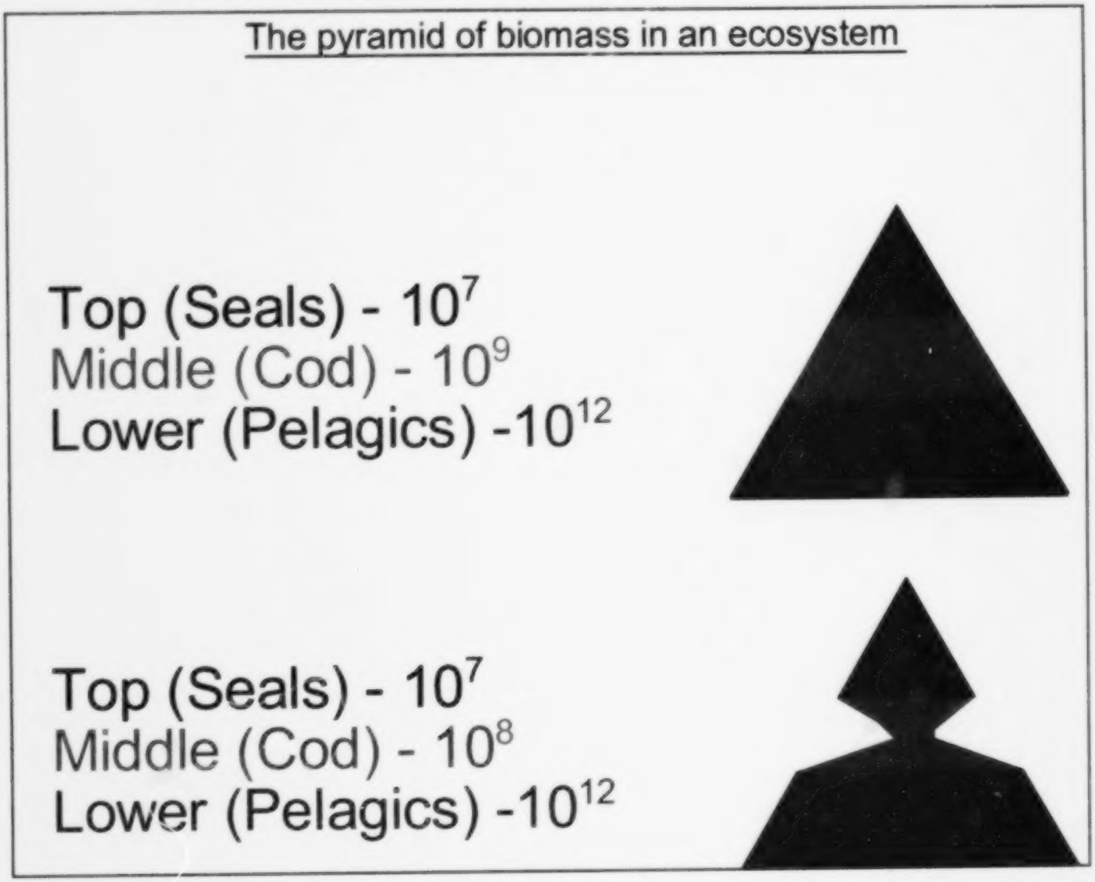

The pyramid of biomass in an ecosystem
Top (Seals) - 10^7
Middle (Cod) - 10^9
Lower (Pelagics) -10^{12}
Top (Seals) - 10^7
Middle (Cod) - 10^8
Lower (Pelagics) -10^{12}

Table 1. Scales of the trophic structure above the plankton in Newfoundland marine ecosystems (see text for details).

	Top	**Middle**	**Lower**
Historic (to 1900)	10^7 (harp seals)	10^9 (cod, redfish, haddock, flatfish)	10^{12} (capelin, herring, shrimp)
Post 1950	10^7 (harp seals)	10^8 (cod, redfish, haddock, flatfish)	10^{12} (capelin, herring, shrimp)

Current State of the Renewable Marine Resources of Newfoundland and Labrador

The renewable marine resources of Newfoundland and Labrador are currently in a mix of conditions (Table 2). Most groundfish and pelagic fish stocks are at relatively low levels of abundance with respect to historical times. However, to the best of our knowledge, crab and shrimp are at all-time high levels and support lucrative fisheries. The current high values of marine fish landings are attributable almost totally to crab and shimp (Fig. 14). Harp seals are very abundant (approximately 5 million animals in the late 1990s) (SSR E1-01, 2000), and anecdotal evidence suggests that hood seal (*Cystophora cristata*) numbers are also high. On the other hand, most groundfish species are at either all-time lows or doing poorly. There are a few notable exceptions, such as cod in NAFO 3Ps, yellowtail flounder in 3NO, and turbot from Baffin Island to the Flemish Cap. Overall, total fisheries production in terms of dollar value is at an all-time high (ca. 0.5 billion dollars per annum).

Figure 14. Landed value of Newfoundland and Labrador marine seafood (1,000$).
Data from DFO and provincial DFA sources.

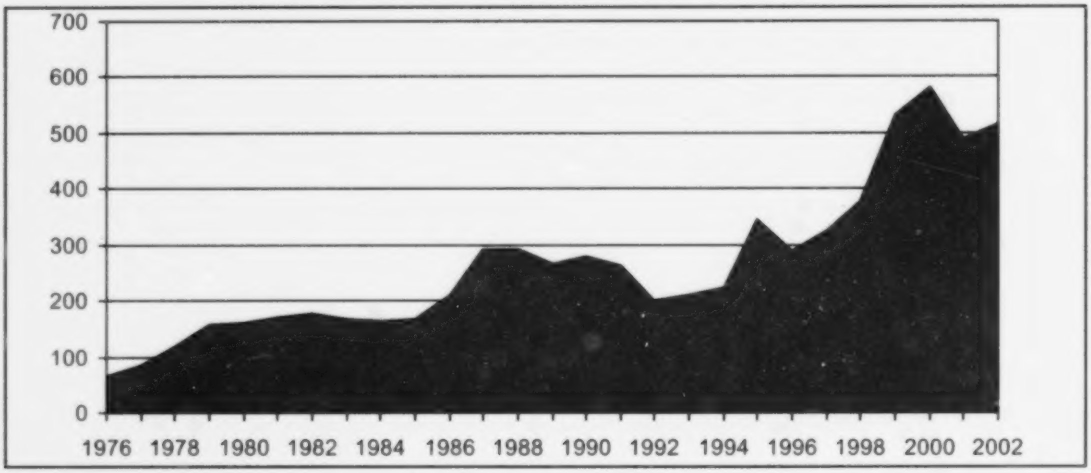


Table 2. Summary of the current state of fish stocks in Newfoundland and Labrador waters.

NAFO region	Species	Status	Fishery	Notes
2J3KL	Coastal Cod	moderate	5 600t	
	Bank Cod	low	closed	Moratorium since 1992
	Redfish	low	closed	Poor recruitment for past 25 years
	American Plaice	low	closed	Age and length at maturity have declined
	Turbot	low	42 000t	Part of larger area (NAFO)
	Witch Flounder	low	closed	
	Winter Flounder	unknown		
	Capelin	low	35 580t	Lack of data in 2001
	Sand Lance	unknown	none	
	Herring	low	4 400t	
	Snow Crab	high	38 000t	Catches declining
	Lobster	moderate		Status unclear
	Pandalid shrimp	high	60 000t	Quota for 2J3K
	Lumpfish	unknown		
3NO	Cod	low	2 000t	NAFO bycatch
	Haddock	low	closed	No rebuilding
	Redfish	low	10 000	Quota for NAFO
	American Plaice	low	closed	Substantial bycatch
	Turbot	low	closed	
	Yellowtail Flounder	moderate	14 000t	Quota for 3LNO
	Witch Flounder	low	closed	
	Capelin		low-unknown	Closed
	Sand Lance	unknown	No fishery	
	Surf Clams	unknown	4120t	Quota for 3LNO
3Ps	Cod	moderate	15 000t	Moderate rebuilding
	Haddock	low	closed	1998 year class appears strong
	Redfish	low	8 000t	Unit 2 Redfish
	American Plaice	low	closed	Recent year classes appear stronger
	Turbot	low	closed	
	Yellowtail Flounder	low	closed	
	Witch Flounder	low	650t	
	Capelin	moderate	2 540t	
	Sand Lance	high	No fishery	Local knowledge
	Herring	low	4 100t	
	Lobster	moderate		Status unclear
	Snow Crab	high	7 600t	Catches declining
	Scallops	moderate	3 550t	Icelandic and Sea scallops
	Pollock	incidental		No fishery
3Pn4RS	Cod	low	7 000t	Status unclear
	Redfish	low	closed	
	American Plaice	low	1 000t	
	Turbot	moderate	1 000t	
	Witch Flounder	low	1 000t	
	Capelin	moderate	10 700t	Local knowledge
	Sand Lance	unknown	No fishery	
	Lobster	moderate		Status unclear
	Snow Crab	moderate	1 540t	Status unclear
	Scallops	moderate	1 200t	Status unclear
	Witch Flounder	low	1 000t	

There is particular concern about the current state of cod. Overall, the magnificent and economically dominant Newfoundland and Labrador cod stocks (which once made Newfoundland the richest place in North America, see Major, 2001) have been reduced over the past 50 years to a remnant state. For the formerly-dominant northern cod stock complex, there is only one component that has rebuilt well since the moratorium, and that is the relatively small coastal component centred in Trinity Bay (Fig. 15). It is overwhelmingly clear that there exist in Newfoundland waters what can be termed "coastal" cod populations, sometimes erroneously referred to as "bay" stocks (these fish may hold to one bay but that is not always true). Coastal fish tend to spawn in particular places, but may migrate along the coast to feed, but seldom offshore or to the Banks. Every scientific approach to the question of the existence of coastal fish has given a positive answer, from the ecological (deYoung and Rose, 1993; Rose, in press), to tagging (Templeman and Fleming, 1962; Templeman, 1971; 1981; Lear, 1984; 1986; Myers et al., 1997; Brattey et al., 2002), to genetics (Bentzen et al., 1996; Ruzzante et al., 2001; Beacham et al., 2002). The coastal component on the northeast coast has over-wintered and spawned primarily in Smith Sound, Trinity Bay since 1995. This population approximately doubled from the mid-1990s until 2002, which represents a strong rate of increase of about 0.2 per year (Rose, in press). However, in all other areas of the former northern cod stock area, there has been little increase over the past decade. There has been a four year cycle of sorts in offshore bank substocks of northern cod since the early 1990s. A relatively strong spawning event occurred in the Hawke Channel region in 1994 (Anderson and Rose, 2001), and the 1994 year class initially appeared to be relatively strong. These fish in turn spawned in 1998 (see Fig. 14). Following that event, there is evidence that the 1998 year class, and perhaps the 1999 year class, are the strongest in a decade, and they first spawned in 2002. If these recent year classes can survive beyond their first year or two of spawning, the reproductive potential of several Bank groups of northern cod may increase substantially in the next few years. It is far from certain that this will occur, however, because for the past decade the apparent mortality of fish greater than age five has been astoundingly high (Anderson and Rose, 2001; Lilly et al., 2001).

Another major concern is the status of capelin, formerly the major food of the northern cod (Turuk, 1968; 1979; Lilly, 1984). Although the status of capelin is uncertain (SSR B2-02, 2001), and evidence that year classes produced in Trinity Bay in the mid-1990s were relatively strong (SSR B2-02, 2000), there is a general agreement among fishermen and more recent surveys that capelin are at very low levels in most areas. During the past decade, cod in the key northern areas have had almost no access to capelin (O'Driscoll et al., 2001), and cod condition and reproductive potential has suffered as a direct consequence (Rose and O'Driscoll, 2002). Other species have shown similar declines in capelin their diets. Rowe et al. (2000) showed that murres (turrs) have far less capelin in their diets in the 1990s than in earlier times, and Arctic Char off Labrador found little capelin in the 1990s (Dempson et al., 2001).

Most of the species subjected to pulse fisheries in the second half of the 20th century (e.g., American plaice, haddock, redfish), that could play roles in a revitalized fishery in Newfoundland and Labrador, have not rebuilt to any extent. There is also concern that current harvest rates of Greenland halibut will result in declines in this stock.

At present, the marine ecosystem and the fisheries are dominated by shrimp and snow crab. The ecosystem state has clearly changed or even flipped into a new state (e.g., Gunderson and Holling, 2002). Although the stability and durability of the crustacean regime are not known, there are reasons to expect that this regime will not be as stable or durable as a capelin-cod alternative regime. Cod and redfish (considered a part of the capelin-cod regime) are much longer lived species and should force a higher degree of relative stability on the entire ecosystem than is to be expected from the shorter lived crustaceans. Despite their current low levels of abundance, there is reason to believe that cod and capelin can regain their former dominance in the marine ecosystems of Newfoundland and Labrador. The genetic and distribution structures of the stocks are still relatively intact (Rose et al., 2000; Ruzzante et al., 2002). Capelin are capable of quick expansion of both range and numbers. Why these species have been slow to regain their dominance in the ecosystem is a key question for science. The same questions can be posed for haddock and redfish and other species. Seal abundance levels are high, and are likely impeding groundfish rebuilding (SSR A2-01, 2003). **The answers to such questions are no doubt complex, and the lack of them at present underscores our ignorance of marine ecosystem processes, but their importance to the future fisheries of Newfoundland and Labrador can hardly be overstated.**

Figure 15. Echogram across over-wintering aggregation of cod in Smith Sound in late 1990s. Aggregation is approximately 150 m deep and 1,500 m wide.

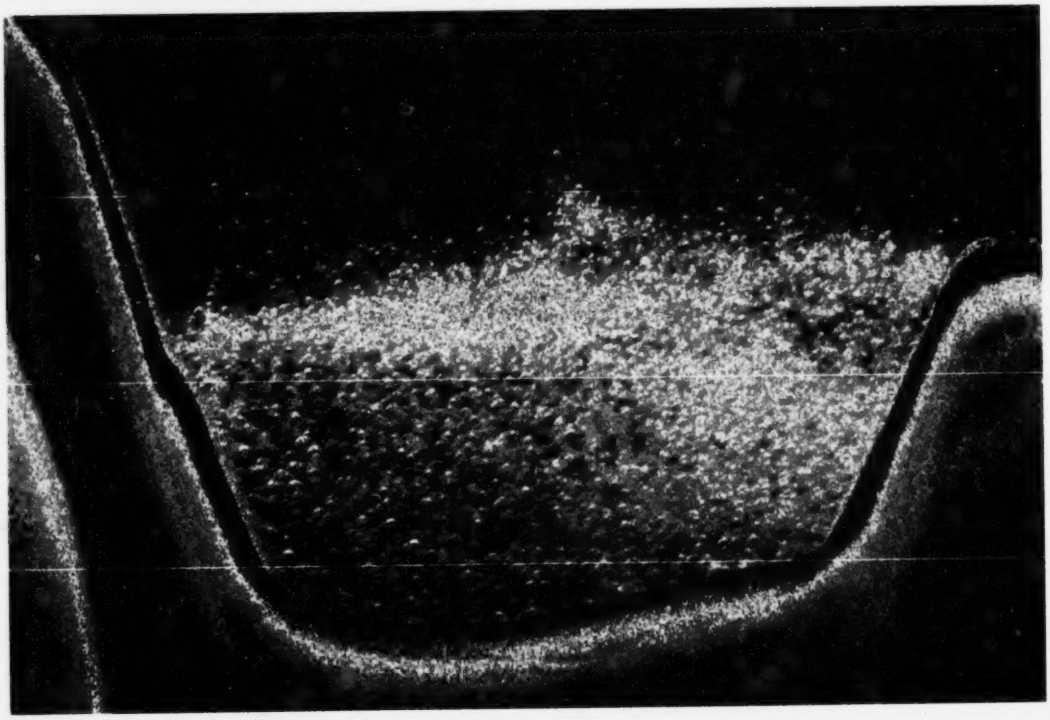
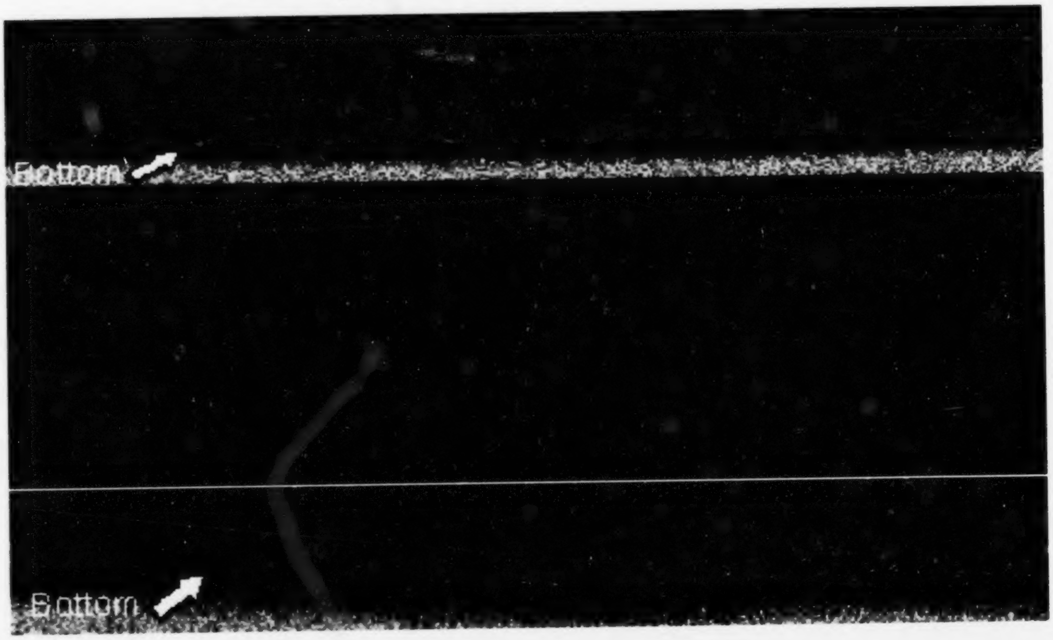


Figure 16. Post-spawning cod in the Hawke Channel in June, 1998. Most fish were four years old (1994 year class). Total depth 425 m, 8,000 m across. Top panel is expansion of bottom 10 m.



Current Levels of Science and their Application to Management

A Brief History of Fisheries Science in Newfoundland and Labrador

Fisheries science is not well developed or supported in Newfoundland and Labrador. This is surprising, given the history, culture and the economic importance of fisheries to Newfoundland and Labrador over many centuries. Nevertheless, the history of fisheries science in Newfoundland and Labrador is characterized by neglect and oversight, beginning with the earliest Colonial regimes, and more recent relegation by both provincial and federal governments and Memorial University to a relatively unimportant status. Perhaps the low status of fisheries science relates to the generally-held low esteem of the fisheries themselves that may be found in the earliest records of settlement in Newfoundland (Prowse, 1895; Major, 2001). It has been the habit of the urban and gentrified elite to dismiss the fishery, and by implication, fisheries science. In rural areas, science remains too much an obscure abstraction. With respect to Confederation, there is no mention of fisheries science (which might be argued to have been an important point in the transfer of responsibilities) in the Terms of Union between Newfoundland and Canada (see Fitzgerald, 2002). Even more disconcerting, the entire text relative to fisheries received little more attention than did the sale and color of margarine (Fitzgerald, 2002). There appears to have been a general feeling that the fisheries were, and continue to be, an outdated and anachronistic endeavor and mode of employment and not to be treated as a serious economic and social institution (after all, Joey Smallwood told the boys to "burn your boats").

Prior to Confederation, Newfoundland had a small but able fisheries research presence. The Newfoundland Fisheries Research Board was founded in 1936, with most work on marine fisheries ecology. Some of this work, such as conducted by Sleggs (1932), Thompson (1939, 1943), and Templeman (1948) and later by Templeman (e.g., 1966 and many references), has not been much improved upon in succeeding decades. After Confederation, there was a five-year transition period after which all responsibilities for fisheries science came under the Canadian Fisheries Research Board, a quasi-independent federally-funded organization with an impressive research record in the rest of Canada. During the 1950s and 1960s, a gradual switch to quantitative stock assessment methods from the earlier more ecological work mirrored such changes in most jurisdictions of the North Atlantic fisheries. After the major declines in the fisheries in the 1960s and early 1970s, and the extension of the Exclusive Economic Zone (EEZ) to 200 nautical miles in 1977, there was a rapid expansion of the fisheries research and management capacities of the newly-formed Department of Fisheries and Oceans (which replaced the Fisheries Research Board of Canada). Scientific responsibilities became focused on stock assessment, and the ecological work of the former era declined. **Developments in more quantitative fisheries science led to a tacit assumption that science would inform management precisely how much fish could be harvested annually, based on surveys and modeling, and that this would ensure that the stocks were allowed to rebuild and not be over-harvested. There was also an unfailing faith in the marine ecosystems of Newfoundland and Labrador to rejuvenate themselves in a manner consistent with earlier and more productive decades. Both these faiths have proven to be unfounded.**

During the era of the Fisheries Research Board of Canada, there were attempts to develop fisheries programs at Memorial University (then Memorial College) and the Fisheries College. At one point, Dr. Wilfred Templeman, the Director of the Federal Laboratory, was also a University Professor in Fisheries. However, none of these early efforts succeeded in establishing a major fisheries research presence at Memorial. The biology department at Memorial developed a very different focus which remains to this day, and the main ocean focus is on "marine biology", which is quite different from fisheries science[4]. In a similar vein, the Ocean Science Centre now concentrates on aquaculture, and various aspects of oceanography and marine biology, but not on fisheries. The Marine Institute conducts very applied research related to the fisheries (e.g., net construction, catching efficiency, fishermen training), but little basic research into the fisheries. The Fisheries Conservation Chair was established at the Marine Institute as part of Memorial in 1996, and has been a focus for fisheries research. However, this group has not been able to grow as hoped, and currently has only a single faculty member. There is the Masters in Marine Science program, which introduces but does not focus on fisheries science. Overall, the lack of fisheries science at Memorial is astounding, given the history and economy of Newfoundland and Labrador. Compare Memorial with the University of Washington in Seattle. UW has a College of Ocean and Fishery Sciences comprised of four schools in Aquatic and Fishery Science, Applied Physics, Marine Affairs and Oceanography, and a Sea Grant group that focuses on particular issues. Each school offers degree programs.

The School of Aquatic and Fisheries Science has approximately 30 faculty and at present 10 post-doctoral fellows and dozens of graduate students. Most faculty work closely with scientists at the U.S. National Marine Fisheries Service laboratories in Seattle. Memorial has none of this, yet the history and future of Newfoundland and Labrador are far more closely linked to fisheries than is the State of Washington (after all, they have Boeing and Microsoft and a major agricultural industry). There has been a perverse and enduring reluctance at Memorial to take a leading role in fisheries science, despite a mandate to serve the interests of the province, and to work with various government departments to that end.

Universities in British Columbia and the Maritime provinces have had many of the same problems, but have fared somewhat better. For example, UBC and Simon Fraser universities have each recently put together impressive teams of academic faculty whose primary interests are not marine biology or general ocean studies (they also have these), but fisheries science and management. Although Dalhousie offers only a general marine biology program (and oceanography), there has been recent hiring in marine conservation areas, and several well known fisheries ecologists work there. Somewhat ironically, both UBC and Dalhousie faculty have conducted research on Newfoundland and Labrador fisheries (e.g., Walters and Maguire, 1996; Hutchings, 1996; Guenette et al., 2000). Surely the fisheries industry in Newfoundland and Labrador is worthy of at least as much attention from its own provincial academic institution.

During the late 1980s and early 1990s, there was a rapid expansion in the science capacity of the DFO and a growth in DFO involvement with Memorial faculty with interest in marine research on cod. During this period, the Northern Cod Research Program, which resulted from the Harris Panel report (1990) and the Ocean Production Enhancement Network (an NSERC Centre of Excellence in Fisheries Oceanography), brought new resources and people to bear on the problems with the Newfoundland cod ecosystems. There was progress, and hundreds of scientific papers were published. New evidence about stock structure and genetics (Ruzzante et al., 1997; 2001), migration and distribution (Rose, 1993; Rose et al., 1994; Warren, 1997; Atkinson et al., 1997; Colbourne et al., 1997), recruitment (Anderson and Dalley, 1997; deYoung and Rose, 1993; Anderson and Rose, 2001), feeding (Lilly, 1994; Deblois et al., 1995; 1996) and the decline and ecology of cod (Taggart et al., 1994; Hutchings and Myers, 1994; Hutchings, 1996; Myers and Mertz, 1997; Myers and Cadigan, 1995; Myers et al., 1997; Colbourne et al., 1997; Narayanan et al., 1997; Walters and Maguire, 1997; Kulka et al., 1997; Rose and Kulka, 1999; Rose et al., 2000; Rice, 2002; Drinkwater, 2002) were direct benefits of this increase in research. However, this level of research, like the stocks of cod, was not to be sustained, and the mid-1990s brought severe cutbacks in research. In the DFO Science branch, an entire research group was disbanded (e.g., the former CODE which focused on quantitative fisheries science), and many scientists retired or left DFO and were not replaced. Budgets were cut substantially, and access to ships curtailed. In the late 1990s, the former fisheries vessels were integrated with Coast Guard. This coincided with reductions in vessel affinities to fisheries science programs and reductions in time available to serve science priorities (Sandeman, 2002).

The Present State of Fisheries Science and its Application to Management

The state of fisheries science and its translation to management of the Newfoundland and Labrador fisheries must be judged harshly. The Government of Canada and its current Department of Fisheries and Oceans have not been effective at conducting the necessary science and executing effective management of Newfoundland and Labrador fisheries. This state of affairs also applies in other Atlantic Canadian waters and in British Columbia, hence the problem cannot be viewed as being exclusive to any province. The apparent attitudes at Memorial University towards fisheries science have added to these problems in Newfoundland and Labrador.

It is evident that many of the most serious problems with the fisheries and with fisheries science did not arise until after Confederation (some no doubt by coincidence). However, there is little assurance that science and management would have been more successful under a different regime (e.g., Newfoundland-based) in the last half of the 20th century. In one area under provincial control, that is education, particularly at the university level, the evidence suggests that fisheries science has been grossly ignored and undervalued. Successive provincial governments have either trivialized and degraded fisheries ("burn your boats") or been at least complicitous with federal governments in unsustainable expansions in fisheries capacity, with scant scientific justification. Hence, the clear failures of science and management cannot be viewed as solely a federal failure, but also as a failure of Newfoundland and Labrador to foster and protect its fisheries, in favor of short-term political interests, and not the least, to international and local circumstances beyond the control of either level of government.

The first step to solving problems is to recognize them. What follows is a discussion of what are perceived to be underlying problems with fisheries science, and the approaches taken to fisheries science, in Newfoundland and Labrador. Possible solutions are then discussed that might enable Newfoundland and Labrador to improve its position and relationship within Canada. These discussions will in turn be followed by specific recommendations.

Centralization and Alienation of Science

Fisheries science has become an alien culture both within Newfoundland and Labrador and within Canada. It does not resonate well either within academic institutions or with industry or the public. At worst, it is mocked. Commentators on CBC's Fisheries Broadcast have referred to fishermen as the "real scientists", which is not only misleading and untrue, but intentionally demeaning to scientists. This does not happen to Physicists or Linguists or Engineers or any other discipline. Unfortunately, such attitudes only serve to perpetuate a rift between the legitimate knowledge base of fishermen and industry and the equally legitimate (but different) knowledge base of science. At the same time, the CBC belies age-old gentrified attitudes by over-reporting the largely negative views of rural Newfoundland and Labrador and the fisheries espoused by largely urban-based animal rights groups.

A major cause of alienation is that the centers of science and management are located thousands of kilometres from Newfoundland and Labrador and from any ocean, in

Ottawa. Canada is a geocentrically-focused country whose capital and centers of power are centrally located. There are unspoken tendencies to address the needs of the central provinces (which are not fisheries management). The focus on land-based (and urban-based) issues is unfortunate considering that Canada has the longest coastline of any country and a long history of marine fisheries and seafaring activities. It is interesting to note that in the United States, the most populous and powerful regions are coastal and not central, which differs greatly from Canada, and this difference may be reflected in more aggressive marine policies. From the standpoint of fisheries science and management, centralization is a source of alienation of both institutions and individuals from local concerns and experiences. It also enhances the likelihood that federal institutions become overly bureaucratic and that lobby groups with better resources will be able to influence management policies outside of the local context. A good example of this occurred in the late-1980s, when local inshore fishermen were convinced that offshore trawling was decimating the spawning cod stocks, and took DFO to court on that count (they lost – which only proves the law is not always right). At the same time large trawler-based companies, some based in Nova Scotia, were effectively lobbying to keep the trawler fishery going and the quotas high. This sad state of affairs continued in spite of local evidence that the stocks were exhibiting signs of major stress and decline. The large vessel shrimp fishery lobby continues that tradition. Newfoundland and Labrador has done little to develop a counter-balance to this centralization by developing a strong fisheries science capacity in this province.

It is noteworthy that the European Union has recently stated a commitment to decentralize fisheries authority, and DFO's own Atlantic Policy Fisheries Review process described a similar demand for decentralization in many consultations.

There have been problems with fisheries science and its interpretation at the political level since Confederation, perhaps because of a basic disconnect between Ottawa-based fisheries personnel and the realities of the biology of the fish stocks and the fisheries. There are many examples of this. After the extension of jurisdiction to 200 nautical miles in 1977, which was clearly insufficient to conserve these fisheries ecosystems, projections were made of how the Grand Banks (NAFO 3NO) and northern cod (NAFO 2J3KL) would respond to the lack of foreign fishing within the new EEZ. The biological projections were based on faulty interpretations of the basic biology of the species, and an assumption that the devastation of the fisheries of the 1950s and 1960s would have no long-lasting effects. As a result of false assumptions, the Kirby Report (1982) stated that "there will be many problems in the future for the Newfoundland fisheries, but lack of fish will not be one of them." This could not have been further from the truth, but was, unfortunately, followed by a gold rush attitude among provincial politicians and industry which resulted in the building of unsustainable fishing fleets (apparently to replace the foreign fleets), and plants to process the coming abundance of fish. Much of this new effort was not based in Newfoundland and Labrador, but in other Canadian provinces, particularly Nova Scotia. The problems with science on the northern cod did not end there. Federal scientists, convinced that the northern cod was growing, must take some responsibility for the massive over-fishing that took place in the 1980s.

A related source of alienation is the lack of consideration of the traditional and local knowledge of fishermen about the species they fish for and the local ecosystem which is, in a sense, their 'back yard' (Neis et al., 1999). There is no better example of this than the failure of science to take seriously the concerns of inshore fishermen about the state of the northern cod in the 1980s. Quantifying local knowledge is not a trivial matter (to go from individual opinion to consensual fact), but neither is it impossible. Surveys conducted by the FFAW (telephone) and the sentinel fishery surveys have proven very useful to science in recent years, and now form an important part of several stock assessments.

Inadequate Support for Fisheries Science

In Newfoundland and Labrador, most fisheries science is conducted by the DFO and most of that science is specifically targeted toward stock assessment. Despite the powerful messages of the Harris report (1990), which advised that a broader-based ecological approach be taken to fisheries science, and the signing by Canada of the Rio Convention (1992) to foster biodiversity which has ecosystem-based research at its core, there has in fact been a shrinkage in research that would serve such a broader approach. Prime examples include the lack of capelin research and surveys, with the unacceptable conclusion that "in future, it is highly unlikely that relative estimates of year class strength and an assessment of stock status will be possible" (SSR B2-02, 2001). Capelin is the most important forage species in Newfoundland and Labrador waters (Lilly, 1994) and is essential to cod growth, reproduction and survival (Rose and O'Driscoll, 2002). This importance of capelin is paralleled in Icelandic and Norwegian waters (Vilhjalmsson, 2002). Despite this, there is no regular survey of capelin abundance in Newfoundland and Labrador waters (a former survey was ended in the mid-1990s as a consequence of confusion about capelin status and funding cuts). Another example is the dropping of the juvenile survey that provided early information on cod, haddock, capelin, redfish and other species that presumably should be rebuilt (e.g. Anderson and Rose, 2001). A third example is the lack of feeding studies by DFO on the main consumers in these ecosystems (the Fisheries Conservation Chair has been analyzing cod stomachs since 1996). It is clear that to achieve a better understanding of both the state of the marine resources, and their likely future levels and performance, an increase in research that takes an ecological approach to fisheries is needed. At present, an "ecosystem approach" has little substance, and hence in many cases science cannot answer questions as to why the fish stocks are in their present state, and what is the likely outcome of the species and abundance changes that have occurred in Newfoundland and Labrador waters in past decades.

The abilities of DFO science to achieve its mandate of providing advice on stock status and the potential for fisheries is hampered by several factors, including a reduction in both personnel and funding for science at all levels. At the DFO, the number of research scientists has declined significantly over the past decade, through both retirement and leaving. In addition, there is less access to ships by DFO science for surveys and research than at any time since the 1970s (Sandeman, 2002).

There are also apparent disproportionate allocations of available funding within DFO science. At present, shrimp and crab represent some 85 per cent of the landed value of fisheries in Newfoundland and Labrador, yet the research effort on these species is minimal. There are a minimal number of crab and shrimp scientists in DFO. There is a much higher representation in salmonid biology, even though salmonids comprise only recreational fisheries, and in groundfish.

A further problem stems from the shifting of fisheries research vessels to Canadian Coast Guard management. The Coast Guard and fisheries have a very different "culture", and science is not the priority it was when vessels were under fisheries control. There are too many instances of science programs being reduced or cut because of vessel down-time or tasking to non-science objectives. **Putting scientists out on the water is necessary to achieving good fisheries science (Rose, 1996), and doing so has become increasingly difficult.**

An "Ecosystem-Based" Approach and Curtailing Foreign Over-fishing

There is near universal agreement that the best way to proceed with fisheries management and marine conservation is to pursue an "ecosystem-based approach" (Sinclair et al., 2002). To do so, the ecosystem must be defined, researched, and human activities conducted within them managed as a unit. **For the Newfoundland Grand Banks, this is at present not possible, because the EEZ does not take in the full continental shelf ecosystem.** The NAFO regime has as objectives the conservation and management of the Northwest Atlantic fisheries in areas outside of the Canadian EEZ and for transboundary stocks. The NAFO regime controls the fisheries on the "Nose" and "Tail" of the Banks (Fig. 1), and applies different rules, quotas and standards of conservation and compliance than does the Canadian regime inside the EEZ. This dichotomy of approaches, and the lack of a conservation-based management plan under NAFO, has resulted in depletion of the cross-boundary stocks in NAFO 3L, 3M (the Flemish Cap) and on the southern Grand Banks (NAFO 3NO) (see Table 2). A comparison suggests that the NAFO record is worse than the Canadian record. For comparison, the 3NO (under NAFO) and 3Ps (Canadian) stocks are in similar ecological regions and affected by similar ocean climates and biological regimes. However, the moratorium in 3Ps led to a rebound in that stock and a fishery reopening in 1997, and the stock has continued to grow. In stark contrast, the NAFO managed 3NO, which is subject to NAFO "bycatch" fisheries that exceed likely stock production, has not rebounded and may even be in further decline. Almost all of the NAFO-regulated groundfish stocks remain in a state of collapse (Table 2). The yellowtail flounder stock on the Grand Bank is the only notable exception. It is clear that NAFO cannot meet its conservation or management objectives.

An alternative form of management should be found in order to pursue an ecosystem-based approach to the Grand Banks fisheries. One option would be a form of custodial management of the full Grand Banks ecosystem as espoused by the Parliamentary Committee on Fisheries. Delays in achieving this goal should not deter Canadian action to develop an evolving ecosystem-based approach to our fisheries.

Managing Canadian Fisheries (Within the 200 Mile EEZ)

Although the focus of this report is fisheries science, management decisions will impact how science can and should be done. DFO Science is currently charged with providing advice on fish stock status that can be used by DFO management to formulate harvest limits and restrictions for fished stocks. Despite the problems referred to in other sections, the science produced is typically of a very high caliber. However, there is little consistency in how that science is interpreted or utilized. Groundfish stock status reports that are not under NAFO are submitted to the Fisheries Resource Conservation Council (FRCC), which holds consultations with industry and the public, then submit their own report with recommendations to the Minister. NAFO stocks (those that inhabit the Grand Banks and are considered to be transboundary) are assessed through NAFO without consultations and it is Canadian policy to accept NAFO decisions outright. Pelagic, crustacean and marine mammal stocks are assessed locally but these results are submitted directly to Ottawa DFO Science and then to management. This lack of a unified approach to science and management belies any attempt to develop an "ecosystem" approach to our oceans and also creates many imbalances and discontinuities in the conduct of various fisheries. The first step towards an ecosystem-approach should be to get our own house in order.

Management of the fisheries is arguably more difficult than conducting science. Science can and does hide, but management cannot. Managers come under too much pressure from international interests, other government departments, industrial and local interests, and directly from politicians. As a consequence, and somewhat understandably, DFO management is often too willing to capitulate to political interests or to short term fishery interests that are not in the interests of conservation or rational fisheries. Recent examples include the imposition of recreational fisheries on northern cod and northern Gulf cod at a time when stocks were at very low levels, and exploitation already high (opposed by both the FRCC and DFO Science), and the unwillingness to impose meaningful closed areas on the northern cod Bank stock components to protect spawning and juvenile fish. These represent a continuation of perverse policies that did little to sustain fisheries resources, or to secure the future of the Newfoundland and Labrador fishing industry.

A related problem with DFO management may be the lack of consistent training in its personnel, who come from a variety of backgrounds. Unlike Science branch personnel, who must hold University degrees in fisheries or a related science, there are no mandatory requirements for training in fisheries management to gain employment with Fisheries Management. Such training is thought to be essential for DFO fisheries managers, and there are specific training programs in Fisheries and Wildlife Management which cover the basics of managing renewable natural resources. The University of Guelph has offered such programs since the 1960s, although not specifically targeted at marine fisheries, and Memorial University now offers a Masters in Marine Science which is focused on marine fisheries and could form the basis for training of management-level personnel.

An ecosystem approach to management involves a balance of conservation of the full system and its component habitats, species and processes. At present, the unwritten strategy has been to fish what is currently available to the fullest extent possible (under the guise of quotas in some cases). Although it is not the intent of this report to give a detailed or comprehensive account of alternative management strategies for fisheries, it is useful to consider several (Table 3). Options range from simply fishing what is there in abundance to the maximum level, to attempts to manage the ecosystem for long-term stability. The first option will likely result in an unproductive ecosystem, the latter is simply impossible. Somewhere in the middle may lie the best path to take, which involves medium-term stability (5-10 years) as a strategy, attempts to enhance ecosystem productivity and species diversity as much as possible, and imposes reasonable scientific demands. In the Newfoundland and Labrador marine ecosystems, there are currently many species that have depressed population levels compared to earlier times (e.g., redfish, American plaice, haddock, herring), and fisheries potential lies dormant. More diverse ecosystems may be more robust against natural vagaries, so rebuilding these fisheries has an additional rationale. For rebuilding, there is a need to protect spawning and juvenile fish, by restricting fishing and gear within certain areas, and to maintain the populations of all components of the marine ecosystems at reasonable levels. Achieving a scientific and management method that recognizes and promotes a balance between species diversity and fisheries productivity is a key challenge for the 21st century.

The Lack of a Plan and Perverse Agendas

Another major problem facing fisheries science and management in Canada, and that impacts greatly the fisheries of Newfoundland and Labrador, is the apparent multiplicity of approaches being taken to conservation science and management by the federal government. **There exists no overall plan or strategy.** On the one hand, the DFO has as its mandate the conservation of marine resources and fisheries (it shares this mandate with many other countries through NAFO for many stocks), and has most of the country's expertise at its disposal. With the aid of fisheries academics and Industry, DFO (and NAFO) regularly conduct stock assessments to advise management, most of which are peer-reviewed, then for Canadian-managed groundfish stocks subject to further review and consultation with industry and local knowledge by the FRCC. Despite this system, which while imperfect has several essential checks and balances, the Department of the Environment has untethered the COSEWIC group (Committee on the Status of Endangered Wildlife in Canada), whose mandate is to independently identify endangered species. COSEWIC conducts *ad hoc* assessments of the state of various fish stocks, at times using students, which are not subject to any normal scientific peer review, nor any consultations. Up until the passage of the Species at Risk Act, COSEWIC reports were not binding, and so had little impact. However, it now appears that the work of a single person (with no necessary background in the fisheries) could supplant the work of many experts within a major government science branch. There is great cause for concern in this process - that time-tested scientific methods based on acknowledged and unbiased expertise, caution, and peer review are being given short shrift. In parallel with COSEWIC views, which are at least legitimate, there are also concerns that other federal departments (e.g., External Affairs) and lobby groups from the fishing industry and animal rights groups with at times perverse agendas have undue influence on fisheries management. These Departments and vested interest groups may have agendas at variance with future fisheries, and what can be viewed as external power struggles are being played out with little input from Newfoundland and Labrador. There is an old Swahili proverb that states that "when the elephants fight, the grass gets trampled". It appears that once again, the lack of independent fisheries science within Newfoundland and Labrador results in local fisheries being controlled by Canadian and international agendas that do not coincide with those of the Newfoundland and Labrador fisheries.

Table 3. Possible strategies for fisheries in Newfoundland and Labrador. A medium term outlook is thought to be the most realistic and beneficial scope for long-term planning.

Strategy	Benefits	Risks	Science Implications	Management Implications
Maximize short-term harvest, TACs a guideline only	Conceptually simple – recognizes ecosystem variability	Overharvest may compromise long term productivity and species status	Short-term projections	No bycatch, No attempt to rebuild threatened species
Maximize ecosystem diversity	Ecologically attractive – a more robust system	Difficult to achieve Economically questionable	Requires an unrealistic level of science	Unrealistic, Attempt to rebuild all species, Many closed areas
Maximize economic value	Economically attractive – "farming the ocean"	Ecologically undesirable, Unrealistic management goals, Potentially wasteful	Short-term projections	Bycatch could be large, Attempt to rebuild only valuable species, Threatened species
Medium term (5-10 year) sustainability – TACs for medium term	Economically attractive – recognizes ecosystem variability	Few	Medium-term projections (realistic)	Manageable, Rebuilding of species where possible, Some closed areas.
Long-term sustainability – long-term TAC goals	Economically attractive	Won't work – cannot manage ecosystems	Long-term steady states (unrealistic)	Very complex, Lots of surprises

Oil and Gas Exploration and Shipping

The increase in oil exploration through seismic work and in oil tanker traffic raises considerable concern about the future of the marine ecosystems around Newfoundland and Labrador. For all intents and purposes it appears that the oil industry has had a "carte blanche" to conduct seismic work when and where they want, without regard to fisheries resources. This has occurred despite evidence that seismic shooting can negatively impact fish behavior up to 30 km from the shooting range and for considerable periods (Engas et al., 1996) and many outstanding questions about effects on juvenile fish. There is a clear need for both restrictions and research on the seismic activity in marine ecosystems to avert potential effects on sensitive life stages or distributions of marine animals.

In addition, there is great concern about the potential for a major oil spill in Newfoundland and Labrador waters (Carew, 2000), and also about the chronic oil leakages from ships and their effects on the marine environment, in particular but not exclusively on sea-birds (Wiese, 2002). Consideration of the wider marine environment must become central to the ecosystem-based focus of fisheries science.

In conclusion, there is little evidence that fisheries science has been well fostered in Newfoundland and Labrador, and as a consequence the public and industry have not been well served by fisheries science. This situation may deteriorate further with the interventions of the federal Department of the Environment and COSEWIC. **The days when successful fisheries can be prosecuted without science are over.** The fault is not simply or exclusively with the DFO or the federal government, but just as much with local Newfoundland and Labrador interests that do not appear to value fisheries science. There is a clear need for a new direction, based firmly on ecosystem and fisheries science, that will ensure that both fisheries and the marine environment upon which the fisheries depend are able to be sustained and to secure their place in the future economy and society of Newfoundland and Labrador.

New Direction

Fisheries science in Newfoundland and Labrador needs a new foundation and new direction. In conducting this review, it became clear that these needs must first be addressed here in Newfoundland and Labrador, and best with bold and courageous action. **We turn our backs on the ocean, and on our fisheries and marine heritage at our deep peril.** In discussing the options, there are several principles which must be adhered to:

1. federally-funded fisheries science must regain an independence from the political concerns of management;
2. a broadly-based and continuity-rich scientific program will be near impossible without a stronger local base that includes an enhanced university-based component that focuses on Newfoundland and Labrador fisheries;
3. funding for fisheries research must be sufficient to sustain sea research surveys and should be partly provided for by industry.

The independence of science from management and the political processes of the day is vital not only to the quality of the science, but also to its credibility both to local industry and more broadly on the international scientific arena.[5] **There can be no concessions on this point.** It is doubtful if the present configuration of the DFO can deliver the type of science required. Current DFO science seems incapable of dealing with either external (NAFO, animal rights groups) or competing (COSEWIC) agendas. The fault is almost certainly to be the structure of the organization, which constrains the best efforts of science and people. A solution may be to impose a complete separation of science from the current DFO, and to broaden its mandate. **Ideally, an Institute of Fisheries Research, similar to those in Iceland and Norway, would be mandated and funded by the federal government to provide both stock assessments and research on all commercial fish stocks and their ecosystems.** Under such a system, there should be no need for additional COSEWIC bureaucracy for commercial marine species, as endangered species concerns would be dealt with under the new Institute (with responsibilities to the Fisheries Act, the Oceans Act, and the Species at Risk Act). In such an Institute, most research scientists would hold adjunct status at Memorial and compete for independent funding for more specialized research projects.

A vibrant and far-reaching fisheries science program also requires a strong university-based research program in addition to government-funded fisheries Institutes or Departments. Universities have the capacity to conduct short-term inquiries of a more specialized nature, the power of graduate students and post-doctoral fellows to conduct and inspire new research, cost-effectiveness, and also provide a conduit for young scientists to collaborate with and join government-based programs. Co-operation between government-based and university-based science is a win-win situation. There are many examples around the world of close and productive working relationships between government fisheries science and university fisheries research (e.g., Tokyo University of Fisheries - an entire university is devoted to fisheries in Japan - and the Japanese Federal Fisheries, the Universities of Bergen and the Norwegian College of Fisheries Science, Tromso and the Marine Research Institute in Norway, and the University of Washington and the National Marine Fisheries Service Laboratories in Seattle, Washington State). Why such relationships have developed only slowly in Newfoundland is hard to understand. Many university faculty might blame the DFO for this problem, and there has been much criticism about DFO science policies and actions with respect to lack of transparency, data secrecy, and outright perverseness (Hutchings et al., 1999). However, a major part of the problem likely lies with the university, and institutional and individual attitudes towards fisheries and fisheries science, that appear to have persisted for many decades. The institutional attitude seems to be that fisheries are not of sufficient scientific interest or scope to merit focus within the university. Hence, Memorial has only one or two faculty members dispersed among the many departments and Institutes who have formal training in fisheries science. In the most recent DFO science subvention program in 2002, in which DFO Newfoundland partnered with universities to conduct research, of five awards, only one was with Memorial, the others being with mainland universities. The simplest explanation for this state of affairs is that Memorial has few faculty for DFO science to partner with.

It is proposed that the most important single action that Newfoundland and Labrador could undertake to solidify and improve its fisheries science and relations within Canada would be to have Memorial University establish an academic Fisheries Science Centre. A model could be the Ocean Sciences Centre, which operates as a research facility within the university (primarily in aquaculture and fish physiology), with 8-10 research faculty. The initial focus of a Fisheries Centre would be to conduct research on the marine fisheries ecosystems of the North Atlantic, but also on other fisheries systems, and to offer graduate training and post-doctoral training. Students could come from Newfoundland and Labrador, other provinces, and other countries. With sufficient undergraduate student demand, the Centre could evolve to form a new department with degree granting status. The establishment of the Fisheries Centre is recommended whether or not the DFO is reorganized along the lines suggested in this report (ideally, a university Fisheries Centre would work seamlessly with federal and provincial fisheries interests). A new Centre should focus on Newfoundland and Labrador priorities on fisheries, and would enable a much stronger focus on fisheries science at Memorial, and a more effective interaction between government science and university science. The Centre could utilize existing facilities at the Ocean Sciences Centre and the new Bonne Bay research station, and would of necessity have close ties with the more applied research at the Marine Institute. There are several faculty at Memorial that could form the nucleus of such a Centre almost immediately, although new hiring in the fisheries area would also be necessary.

Fisheries science cannot be successfully conducted entirely within laboratories and offices (Rose, 1996). Surveys and at-sea research is essential, as is exposure of fisheries scientists to the marine ecosystems they are studying, if not to the fisheries. In Newfoundland and Labrador, access to vessels has been declining (Sandeman, 2002) and many important surveys and research have been dropped in recent years (e.g., the acoustic survey for capelin, the juvenile fish and ichthyoplankton survey) or substantially reduced. There is a need to have at least three fisheries research vessels operating year-round in Newfoundland and Labrador waters two with offshore capabilities, and one inshore). Of the three vessels that now operate in Newfoundland and Labrador waters for part of the year, only the CCGS Teleost is a modern fisheries research vessel, both the CCGS Templeman and CCGS Shamook are old and outdated for fisheries research. In addition, since the merging of fisheries research vessels with Coast Guard, there have been tendencies to down-play the importance of the science program, and to use the former fisheries research vessels for other tasks such as routine search and rescue. The fisheries research vessels should be extracted from Coast Guard and put under the control of DFO science or a new Institute of Fisheries Research.

Industry should play a larger role in supporting fisheries science in Newfoundland and Labrador. Industry involvement can take several forms. Funding should be offered for both basic and directed applied projects at Memorial and the DFO laboratory. In addition, Industry ship support could be used for surveys, as is done in Iceland, Norway, South Africa and New Zealand. Industry is well on its way to doing this. Funding has been available for NSERC Industrial Research Chairs at Memorial, independent surveys, and DFO collaborations. Such involvements should be encouraged, and would likely be more productive for Industry with an enhanced fisheries science capacity at Memorial, and an independent Institute of Fisheries Research.

A Rebuilding Plan for the Newfoundland and Labrador Fisheries

"Made Right Here" – a Newfoundland and Labrador slogan

A symptom of the lack of effective fisheries science (and management) in Newfoundland and Labrador is the lack of an overall comprehensive plan to guide rebuilding of the fisheries. There are no clear goals, few guidelines and little direction, and as a result many confusing and incompatible agendas receive endless and needless discussion. **Newfoundland and Labrador needs to refine its own future vision and to incorporate that vision into a master plan for its fisheries ecosystems and industry, as a basis of its future economy and society.** Such a plan will assist and influence federal planning and management. At Johannesburg, Canada committed to rebuilding depleted fish stocks, of which there are many in Newfoundland and Labrador waters. A key question is how does Canada intend to meet that commitment? A clear vision of the future of Newfoundland and Labrador and its marine ecosystem-based economy would no doubt help focus that commitment and guide its implementation. The master plan must be comprehensive in terms of conservation of the ecosystem, its components and fisheries, and address many of the most difficult problems facing the current fisheries and those of the future. It must be formulated with full public and industrial participation and consultation. This is not a time for faint hearts.

It is not the intent of this report to draw up such a plan, but rather to point out very clearly that one is needed, and to draw attention to what may be some of its key components. An effective plan will have to address issues pertaining to science, management and enforcement. Some of the key issues for science will be what types of science are needed and how much of it can we afford? Also who will do it and who will pay for it? There are key ecosystem-level questions about the recent regime shifts, the long-term impacts of fisheries, climate change, and the balance between high level predators (marine mammals), commercial groundfish, crustaceans and forage fish. Key issues for management, and there are many, will include foreign over-fishing on the Grand Banks, oil industry impacts and pollution, capacity limits through restrictions on licenses and allocations for fishing and for plants, the type of gear to be used in sustainable fisheries, the protection of forage fish stocks (capelin, herring, sand lance), the potential for reduction in seal herds, and management by restricting all fishing in sensitive spawning and juvenile areas both in the coastal and Banks regions. Planning can begin with single species, but should merge to form an "ecosystem" approach that takes into account ecological principles (as best we understand them), and the benefits of having a multi-trophic level balance and conservative harvests as a means to long term fisheries sustainability. History shows that it is neither acceptable nor effective to have such a plan fabricated in Ottawa. Newfoundland and Labrador needs to redefine and refocus its own version of its future.

Conclusions and Recommendations

It is the conclusion of this report that fisheries science has been inadequately developed in Newfoundland and Labrador to achieve goals generally associated with a sustainable and durable fisheries-based economy. The lack of local science has likely contributed to the current lack of fish. This situation began in an independent Newfoundland and Labrador, continued through Confederation with Canada, and has been exacerbated by a generic non-interest in fisheries science at the province's only university. Recommendations are divided into two parts, those that are entirely within local Newfoundland and Labrador jurisdiction, and those that require actions by external parties, in particular the federal government.

Newfoundland and Labrador

Newfoundland and Labrador must change its ways if it is to do better within Canada. We must better look after our own interests, notably the science, management and direction of our oldest and most important industry - the fishery. If we want to see why Newfoundland and Labrador has not fared as well as hoped since Confederation, we should first hold the mirror in front of our own institutions. In short, to increase the ability of Newfoundland and Labrador to renew and strengthen its relationship with Canada in terms of fisheries science, it is imperative that enhanced capacities for independent fisheries science be developed within Newfoundland and Labrador at Memorial University. This must be seen as the top priority if Newfoundland and Labrador is to improve its fisheries science and by doing so enhance its abilities to influence federal science and management. Otherwise, we should be content with having mainland interests make the decisions for us. The prospects of increasing fisheries science at Memorial under existing university structures have been limited. Hence, **it is recommended that Memorial University establish an academic Centre for Fisheries Science, with fisheries faculty taking an ecosystem-based approach to addressing areas of oceanography, stock assessment, and groundfish, pelagics, and crustacean fisheries science.**

Newfoundland and Labrador high school students might be expected to develop an interest in the science of the fisheries that are conducted on their doorsteps. Some do, but it is not enough. One reason may be that students are not exposed to the history and culture of Newfoundland and Labrador, which is inextricably entwined with the fisheries. Another is the generally negative view of the fisheries and their future. However, in one high school course on Newfoundland and Labrador history, much could be learned, almost by osmosis, about our historical and modern fisheries and their science and future. Is there any reason why fisheries science and models could not be studied in co-operating biology and mathematics classes? An ideal textbook for a course on the history and culture of Newfoundland and Labrador would be the recent book entitled *As near to heaven by sea, a history of Newfoundland and Labrador* by Kevin Major (2001). **It is recommended that a high school course on the history and culture of Newfoundland and Labrador be made mandatory in the high school curriculum.**

There is a need to clearly express a positive vision for the future of the Newfoundland and Labrador fisheries. **Hence, it is recommended that Newfoundland and Labrador, in**

consultation with the public and industry, develop a focused vision for its marine fisheries ecosystems and their biological, economic and social dimensions, with firm objectives to be included in a master plan.

External

Many actions that would likely lead to an improvement in fisheries science in Newfoundland and Labrador, and an improved position of Newfoundland and Labrador and its fishery within the economy of Canada, cannot be accomplished by Newfoundland and Labrador alone. This situation in no way lessens their importance. The independence of Canadian science under the DFO is imperative for effective fisheries management. However, the present configuration of science within the DFO is less than optimal. The lack of independence from management and political concerns can put science in a straightjacket, and recent declines in funding, personnel and ship service to science has reduced the local knowledge base significantly. Hence, **it is recommended that Newfoundland and Labrador urge the Government of Canada to reform federally-funded fisheries science into independent Institutes of Fisheries Research (in Newfoundland and Labrador, the Northwest Atlantic Institute of Fisheries Research) that would be independent of management, that scientific staffing be reinstated to levels of the 1980s, and that science vessels be reinstated under science control and that their number not be reduced further.**

Newfoundland and Labrador should embrace an "ecosystem" approach to fisheries and become a world leader in its development and implementation. The status quo of following trends in other jurisdictions, usually not to our benefit, is no longer acceptable. We have the ocean, the ecosystems, the fisheries, the marine mammals, the history and culture of a marine people, and an overall environment second-to-none on earth. What is lacking is the will to confront existing attitudes and power structures that traditionally have meant that Newfoundland and Labrador will neither control its own destiny nor prosper. It is clear that to put Newfoundland and Labrador in the forefront of marine conservation requires a change in attitude of most everyone involved in the fisheries, from the small boat harvester to those at Memorial University and in Ottawa. To accomplish this will require a tough political approach to management not seen since the days of the fishing Admirals (not that we want to see them back). One thing is clear. Such a change must start here.

An ecosystem-based approach requires that activities and developments taking place within ecosystems be managed. At present, such a unified approach is impossible in Newfoundland and Labrador waters, because the EEZ does not encompass the full continental shelf whose shelf break forms the most obvious boundary of the coastal ecosystem. The current system of dual management, that of Canada inside the EEZ, and that of the NAFO conglomerate outside the EEZ, on the same fish stocks, is not consistent with an ecosystem approach to fisheries. A unified management of the full ecosystem is mandatory in order to practice an ecosystem approach to fisheries. Hence, **it is recommended that Newfoundland and Labrador endorse and pursue a unified approach to the science, management and enforcement of the Grand Banks fisheries that is ecosystem-based and implemented by the coastal state (Canada).**

It is also important to note that present difficulties with NAFO provide no argument for not working towards ecosystem-based management in Canadian waters.

Successful management of the marine fisheries by model-based quota setting has a checkered track record. There are several reasons for this. Model fitting procedures and data interpretations often lead to "retrospective" problems in which models systematically overestimate stock size and underestimate fishing mortality. In addition, exploitation levels can be set too high (on the basis of misinterpreted historical data on sustainable harvest rates), or if the rates are appropriate, are overshot. Discarding and other poor fishing practices effectively may make modeling a paper exercise (e.g., see Shelton and Lilly, 2001, for northern cod). For all these reasons, a more robust and conservation-based approach is needed, and one that fits better into an ecosystem approach. Newfoundland and Labrador is in a strong position to take a leadership role in fisheries conservation by implementing new fisheries management measures that would buffer the stocks against errors in science and the vagaries of nature (neither of which is expected to cease). To do this, managers must become more familiar with new and alternative measures of management through fisheries management education and the setting of hiring standards for new employees with a focus on fisheries management. In addition, there are some particular management measures that could be used to help guide future fisheries and enhance the abilities of science to inform management on options for a sustainable and enduring fishery in Newfoundland and Labrador waters.

The current science-management system for Newfoundland and Labrador fisheries involves a mish-mash of different approaches. For groundfish stocks resident entirely within the Canadian EEZ, the FRCC sits between DFO science and the Minister, but not for other stocks. NAFO stocks are subject to an entirely different system, with no consultation, and with Canada accepting all NAFO decisions. Pelagics and crustaceans are not subject to FRCC review or consultation. The FRCC does not have an ecosystem mandate, or the authority to guide management directly. These factors impede the effectiveness of both fisheries science and management in Newfoundland and Labrador.

To address the inadequacies of the present system in a constructive manner, and to conserve our fisheries for the future prosperity of Newfoundland and Labrador, several specific actions are recommended:

a) that long-term marine ecosystem management plans be developed (preferably by the FRCC or its successors in consultation with Newfoundland and Labrador) to address at least the following:

   i. determinations of conservation-based fishery harvest levels within the ecosystem context,

   ii. recognition of the climate-based nature of the fisheries and potential for change over time,

   iii. rebuilding collapsed stocks and ecosystem processes,

   iv. allocation of rebuilding groundfish resources and appropriate gear types (e.g. inshore versus offshore fishery; abolition of destructive fishing practices),

   v. appropriate scientific monitoring (e.g., surveys of multiple trophic levels),

   vi. a system of substantial limited or no-take fishing and oil and gas exploration and development zones to protect habitat and spawning and juvenile fish,

vii. closure rules for unsustainable, uneconomic or undesirable fisheries (e.g., capelin),

viii. habitat protection and restrictions against pollution (both land and sea based).

b) that an Atlantic Fisheries Conservation Board be set up to replace the current Fisheries Resource Conservation Council. The AFCB would have responsibilities for all fisheries resources, would be comprised of independent experts from industry and governments, including several full-time scientific employees (seconded or retired), would take an "ecosystem" approach, and would advise management directly. The AFCB would report to the Federal Minister only for administrative purposes.

c) that locally-based fisheries councils be set-up that are close to the fisheries, involve local expertise, and can take responsibility for designated local management and enforcement functions such as bycatch allocation, seal control, and methods to limit poaching and enhance conservation.

Endnotes

[1] Reduction fisheries reduce fish into meal for animal feed or other protein

[2] Over-fishing can be defined as growth over-fishing, which reduces the yield of a fishery, or recruitment over-fishing, which reduces the abilities of a stock to self-recruit.

[3] Hutchings (1999) continued to argue that the early 1990s were not unusually cold.

[4] Fisheries science is an applied science that studies the effects of fishing and environmental variation on fish population dynamics and the ecosystem

[5] There are many other legitimate interests in marine resources, and this is not to deny them, nor proper political concerns of managing the fisheries, but neither these concerns nor the parties who have them should be in a position to influence science. The appropriate process is to have science provide research and analyses that lead to advice to management, and then through an additional process the consequences of various management alternatives suggested by the science be judged. Ideally, this additional process would involve an independent board similar to the present FRCC, but with a distinct difference in that this board would have authority to advise management directly. The Minister would not have such authority, and the influence of Ottawa-based DFO would diminish accordingly, in favor of local DFO management.

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Appendix I

Data for Historical Descriptions of Newfoundland Fisheries:

Historical data were collected from several sources (Table 1). Discrepancies in the data were resolved using a comparative method. For example, in many cases several independent data records existed for the same time period. A modal range was used to decide which record to use. This method worked well for all periods with the exception of the earliest data from the 17th century. The English fishery data were consistent, but there was disparity among historical treatment of the available French fishery data. Hutchings and Myers (1995) show very low catches through this period for northern cod. Alternative treatments of this same era by Pope (1995) and Cushing (1988) show substantially higher catches, based primarily on the French fishery. There was consistent agreement, however, that catches in the early 18th century were poor (considering the French catches or not). The early catches are almost certainly underestimated. They do not include any Portuguese or Basque data, which is unavailable, even though the Portuguese fishery was the first major fishery in these waters (one report of 150 vessels by 1550, cited in Cushing, 1988). Pope (1995) argues that these fisheries were minor compared to the French and English fisheries of this era.

There were sporadic occurrences of years for which no catch data exists (usually these were lost in a fire). However, the overall series for cod was strongly autocorrelated ($r = 0.85$ at lag 1). Hence, for some analyses the missing data were filled in by a moving average of catch in the two preceding and following years. Where data gaps were larger, linear extrapolation between data was used to estimate catches. This occurred only with data from the 16th and 17th centuries. As a consequence, the interannual variability in catch in these centuries is likely underestimated. French catches from 1793-1893 were estimated from a linear model based on vessel numbers (de La Villemarque, 1994) in relation to known catches in the late 18th century (de La Villemarque, 1991). Increasing efficiencies in the 19th century would indicate these catches are also underestimated.

Historical climate data from direct measures and reconstructed from tree ring analyses were taken from the literature. Tree ring data provide the longest continuous series of climate data available with which to compare to northern fisheries data (e.g., D'Arrigo and Jacoby, 1992).

Appendix II

Table 3. Sources of historical fisheries data.

Century	Fishery	References
16th	French	De La Villemarque (1991, 1994), La Morandiere (1962), Cushing (1988)
	English	Cell (1969), Cushing (1988)
17th	French	De La Villemarque (1991, 1994), La Morandiere (1962), Cushing (1988)
	English	Prowse (1895), Ryan (1969), Forsey and Lear (1987)
18th	French	De La Villemarque (1991, 1994), La Morandiere (1962), Cushing (1988)
	English/NF	Prowse (1895), Ryan (1969), Forsey and Lear (1987)
19th	French	De La Villemarque (1994), Prowse (1895), Sette (1929), ICNAF (1951)
	English/NF	Prowse (1895), Sette (1929), Ryan (1969), Forsey and Lear (1987), ICNAF (1951)
	Portuguese (1896- only)	ICNAF (1951)
20th	French	ICNAF (1951), NAFO (1996)
	NF	ICNAF (1951), NAFO (1996), Nordco (1981), Winsor (1992), DFO (unpublished)
	Portuguese	ICNAF (1951), NAFO (1996)
	American	ICNAF (1951), NAFO (1996)

Royal Commission on Renewing
and Strengthening Our Place in Canada

New Arrangements for Fisheries Management in Newfoundland and Labrador

– David Vardy and Eric Dunne

March 2003

The views expressed herein are solely those of the authors and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

This report develops a statement of objectives for fisheries policy concerning the use of, and benefits from, the fishery resources adjacent to the province of Newfoundland and Labrador along with the recommended mechanisms to enable the province to realize these objectives through adequate participation in management regimes. The consultants began by examining the fisheries management system before Union with Canada and the changes that took place subsequently within the context of management actions taken by two governments operating independently. The consultants undertook a survey of the objectives that the two levels of government appear to have adopted over three broad post-Union periods. This survey documents a serious disconnect, leading to widespread failure of fisheries policy in the context of the collapse of groundfish and other stocks and the precarious present dependence of the province's fishing industry upon two shellfish species, one of which is abundant (shrimp) but whose contributions to margins are low, while the other (snow crab) is declining in abundance but whose better margins have created a high measure of dependence.

The strengths and weaknesses of the existing management regime and division of powers have been assessed, leading to the conclusion that major changes are required to integrate policy decisions and to achieve policy coordination. The consultants conclude that the climate currently is not favourable for constitutional change, notwithstanding the compelling case for a realignment of fisheries management powers. Instead, they recommend firstly that a joint, federal-provincial policy board be established which would examine the current state of fisheries management and establish stock rebuilding goals for all major stocks, along with measures for restoration of the fisheries habitat and eco-system to the level which prevailed before massive overfishing of major groundfish stocks took place. The consultants recommend to the Royal Commission a major restructuring of fisheries management, with the creation of a federal Atlantic Fisheries Management Commission, a joint Canada/Newfoundland and Labrador Licensing and Allocations Authority, along with a joint federal-provincial policy board.

The report also proposes a new set of policy objectives for management of the fishing industry. These would place first priority on conservation while also providing for a balanced and viable industry that respects the rights of First Nations and the claim to priority of access by people in adjacent fishing communities. They provide a greater place for the values and aspirations of women participants. This industry would have a level of overall participation that provides for competitive enterprises producing reasonable levels of incomes and overall returns. It would not be a rent maximizing industry but one that provides for specific socially desired values without ongoing operating or capital subsidies. It would allow for greater private sector decision-making through continued evolution toward market-based approaches, which will allow self-rationalization in the processing and harvesting sectors.

The report recommends that measures be taken to rebuild depleted stocks, including predator reduction, a moratorium on capelin harvesting and pilot projects to explore the benefit of recolonization of depleted groundfish stocks.

This report also recommends institutional changes within the province to build a strong conservation ethic and an informed awareness of fishery management issues. These recommendations call for action to be taken by the House of Assembly, the highest deliberative body in the province, by the primary and secondary school system, by the University, by the

provincial Department of Fisheries and Aquaculture and by fishing industry participants. The consultants recommend that women be given a greater voice in all fisheries management functions, in recognition of their commitment to the industry and the potential contribution that they can make to policy development and industry management.

Contents

Executive Summary and Recommendations 79
Division of Powers 79
Fisheries Management Since Union with Canada 80
Apparent Policy Objectives 80
Alternative Policy Objectives 82
Strengths and Weaknesses 83
Delivery of Central Functions 84
Summary of Recommendations 86
Introduction 89
Terms of Reference 89
Past and Present Canada/Newfoundland Fishery Management Systems 90
The Newfoundland Fishery Management System 92
The Canadian Fishery Management System 97
The Apparent Objectives of Fishery Management 105
Provincial Fishery Policy 1949-74 106
Federal Policies 1949-1974 108
Provincial Policy Objectives - 1974 to 1992 110
Federal Policy Objectives 1974-1992 113
Provincial Fishery Policy Objectives 1992 - 2002 114
Federal Fishery Policy Objectives 1992-2002 115
Conclusion 119
Alternative Fishery Management Policy Objectives for the Future 121
The Inter-related Fishery System 121
The Policy Path to the Present 123
The Theoretical Basis of Policy Optima 124
The Alternatives For Future Fishery Policy Objectives 126
The Role of Individual Transferable Quotas (ITQs) 129
Strengths and Weaknesses of the Current Management Regime and Division of Powers 134
Policy Integration 134
Strengths of the Existing System 136
Weaknesses of Existing System 138
Conclusion 143
Alternative Fishery Management Systems and Arrangements 143
Division of Fisheries Powers 144
Individual Core Functions 151
Joint Delivery Options 157
Summary of Proposed Management Arrangements 159
Delivery of Ancillary Functions 160
Other Special Considerations 161

Creation of a Public Capacity for Fisheries Policy **162**
Pro-active Stance on Stock Re-Building **162**
Provincial Conservation Ethic **163**
Conclusions **164**

Endnotes **167**
References **175**

Executive Summary and Recommendations

The purpose of this paper is to examine the place of the province of Newfoundland and Labrador in the management of the fishing industry of the province. This examination addressed the adequacy of the powers exercised by the province in the management of the industry and concluded that there is a strong case for changes in management arrangements to provide for a higher measure of participation through a sharing of functions with the federal government. It also calls for societal change within the province to build the strong conservation ethic that is required to rebuild the resources which were our legacy and which we have allowed to be degraded. Unless we make this commitment the legacy we will pass on to future generations will be but a pale shadow of what was bequeathed to us. In this chapter, the conclusions and recommendations of the report are brought together in summary form.

Division of Powers

Before Confederation, Newfoundland had virtually full control over its fishery, except for the involvement of the Government of Great Britain in international relations during the period of Responsible Government. Upon Union with Canada, the provincial government assumed relatively modest powers compared with those of the federal government. The Constitution Act of 1867 assigned exclusive legislative powers to the Parliament of Canada with respect to "sea coast and inland fisheries", and to the provinces with respect to "property and civil rights". The federal government's powers to regulate have been interpreted by the courts to cover management for social and economic matters as well as conservation.

To discharge these functions, the Department of Fisheries and Oceans carries out the core functions of stock assessment and fisheries science, licensing of vessels and fish harvesters and allocation of the resource, along with fisheries enforcement and international negotiations. The federal government also regulates international and interprovincial trade in fish products. Other ancillary functions include the inspection of fish, marine safety, and search and rescue. The federal government is responsible for establishing policies with respect to the management of highly migratory species and for stocks that straddle the 200-mile fishing zone. The federal government deals with other countries and participates in international organizations such as the Northwest Atlantic Fisheries Organization (NAFO) to place conservation limits on foreign fishing activity.

Canadian provinces have regulatory powers with respect to the processing sector, covering, *inter alia*, the licensing of plants, processing requirements and quality control. The general laws of the provinces, such as those relating to occupational health and safety, also apply to the fishing industry, as do specific laws such as the Fishing Industry Collective Bargaining Act in the province of Newfoundland and Labrador. This province manages the development of the aquaculture industry, along with the licensing of sports fishing in rivers and ponds. The province also discharges a broad fisheries development mandate to diversify the fishery and to strengthen its economic role as part of the overall economic development strategies of the provincial government. In light of its economic and social responsibilities, the province also participates in a wide range of federal-provincial consultative mechanisms to advocate on behalf of provincial stakeholders and the broad provincial public interest.

Fisheries Management Since Union with Canada

Since Union with Canada, the management of the fishery has undergone dramatic change. In the 1950s and early 1960s, conservation activities tended to be limited to the nearshore area and much of the attention was focussed on marketing, quality control and fisheries development. In the late 1960s the resource came under intensive pressure from overfishing, leading to the introduction of quotas, controls upon fishing effort and to the 200 mile limit in 1977. Removal of foreign fishing and the introduction of TAC controls also came to the fore in the 1970s. In 1992, with the Northern Cod and other groundfish moratoria, the policy focus shifted even more heavily toward conservation, to rebuilding of stocks, and fisheries adjustment programs to reduce the number of participants. Fishing activities shifted from groundfish to shellfish with the blooming of the snow crab and shrimp resource, as their principal predators experienced a dramatic reduction in abundance. Reductions in both harvesting and processing capacity became a dominant policy concern for both federal and provincial governments.

Apparent Policy Objectives

In the first two decades or so after Union with Canada, there was a high level of agreement on fisheries policy objectives between the two levels of government. At that time, the resource was seen as highly abundant and resilient. Governments focused their attention on modernization, quality control and marketing. There also seemed to be a willingness to increase economic viability through measures to develop year-round offshore harvesting and processing operations as well as strategically placed regional plants. Policy objectives became more divergent as extension of jurisdiction proceeded, with the province encouraging expansion of fishing fleets and processing capacity and the federal Minister cautioning a more gradual pace.

During the 1974 to 1992 period, a high level of tension developed between the province and the federal government, initially focussed upon provincial aspirations for rapid development of harvesting capacity. The federal refusal to agree to this led to demands for increased provincial powers in several rounds of constitutional discussions starting in the late 1970s. By the late 1980s, the euphoria had disappeared, and concerns shifted to the precarious state of the resource. Conflict arose with respect to allocations in the early 1990s, centring upon declining quotas, particularly for Northern cod.

In the period from1992 to the present, there has been a reduced level of conflict with respect to conservation issues. Notwithstanding federal and provincial concurrence to limit financial support, licensing and access policies at both levels have led to a rapid escalation in capacity and a precarious dependence upon crab and shrimp. Allocation policies continued to be controversial, with the focus shifting from Northern cod to Northern shrimp. In the late 1970s, the province had contended this resource was adjacent to Newfoundland and Labrador and that all 11 original Northern shrimp licences should be awarded to provincial stakeholders. In recent years, an allocation of 1,500 tons of shrimp from 3L to PEI interests led to a high level of acrimony and to the appointment of the Independent Panel on Access Criteria. The recommendations of that Panel were deemed less than felicitous by the province, in light of the perceived diminution in the weighting it recommended be given to the adjacency principle.

The current (unranked) objectives of the fisheries management policy of the Government of Newfoundland and Labrador appear to be as follows:

- To create regional balance between harvesting and processing capacity;
- To maximize employment in the fishing industry;
- To sustain rural communities and regional economies on the basis of incomes and employment from the fishery and to modulate necessary adjustments;
- To reject the notion of strategic regional plants in favour of a multiplicity of plants in many communities;
- To advance the claim of fishers in adjacent communities to be the principal beneficiary of adjacent fish stocks;
- To maximize the share of adjacent resources harvested and processed in the province and, thereby, the benefits accruing to the province from the industry;
- To establish stable industrial relations and equitable sharing of the benefits between processors and harvesters from the sale of products from the fishery;
- To achieve a greater voice in the management of the fishery through changes in the province's relationship with the Government of Canada.

The corresponding (unranked) apparent objectives of fishery policy for the federal government appear to be as follows:

- To maximize employment in the industry, subject to the constraint of reasonable earnings;
- To build and maintain an ecologically sustainable resource base;
- To build the scientific capability to minimize the uncertainty attached to scientific estimates along with the management skills to operationalize scientific estimates of risk and uncertainty;
- To allocate fish resources on an equitable basis to various competing user groups;
- To minimize the impact of resource and market changes upon fishing people and communities;
- To maintain Canadian control and to maximize the benefits to Canadians of fish harvesting and processing; and
- To reduce capacity and facilitate adjustment out of the fishing industry.

The lack of congruence or consistency in fishery management objectives between the two levels of government has led, predictably, to a general failure in fishery policy. The overall result of fisheries policies since Union with Canada, combined with the activities of industry, has been a sharp decline in bio-diversity. Groundfish stocks now comprise a much smaller share of the resource base and there is mounting evidence that capelin stocks have greatly declined. Crab stocks have been placed under so much pressure that they also are in decline in some areas; only the Northern shrimp resource still appears to be healthy.

Alternative Policy Objectives

The considerable body of literature on objectives of fisheries policy encompasses a wide range of diverse perspectives that defies any attempt to distil what might be identified as a consensus of expert opinion. Governments may choose to place social objectives at the top of their agenda or they may elect to manage the fishery for economic objectives. Governments normally face financial constraints that force them to examine the trade-offs among policy objectives and to measure the economic cost of achieving social policy objectives. Usually, the choice of economic and social objectives is mutually exclusive. It is unrealistic to expect governments to use the fishery to maintain a large number of stable communities and keep employment levels high, while at the same time achieving an economically viable industry that maintains a high level of reinvestment and can compete internationally. Before a rational choice is made governments need to know the price to be paid for achieving social objectives, a price measured both in terms of cost to the Treasury and in lost economic returns to the industry.

It is our view that the linkages between income support measures, particularly employment insurance, and fishery management should be subject to further review to ensure that the success of the fishery is not compromised by the unintended consequences of a well-meaning and firmly established program that injects new funds into the province. This review should examine the unintended consequences of Employment Insurance, including growth in, or even maintenance of, capacity. It should also examine the impact on the education of the young school-age people of the province who could still be drawn out of school by the lure of qualifying for benefits. It should recognize the positive contribution that employment insurance makes to the economy of the province and that, in its absence, and in the absence of a successful program of economic diversification, the level of incomes in the province would be significantly curtailed.

The report also proposes a new set of policy objectives for management of the fishing industry. These would place first priority on conservation while also providing for a balanced and viable industry that respects the rights of First Nations and of people in adjacent fishing communities. They provide a greater place for the values and aspirations of women participants. This industry would have a level of overall participation that provides for competitive enterprises producing reasonable levels of incomes and overall returns. It would not be a rent-maximizing industry but one that provides for a wider range of socially desired values without ongoing operating or capital subsidies.

The decision as to the weights to be assigned to conservation, economic efficiency and social factors is the prerogative of government. Any views we might express must be understood to reflect our personal values. However, conservation is both an objective and an overriding principle. We would not see conservation compromised in any way to promote economic or social objectives. We believe that the fishery can make its greatest contribution if government intervention is kept to the minimum that is required to mitigate the social impact of necessary economic adjustments. Only in this way can governments expect the fishing industry to make the most suitable contribution to society.

There has been an evolution toward a rights-based system in the fishery of Newfoundland and Labrador. This has the potential to allow for more self-regulation and reduced reliance on government intervention. Full and immediate adoption of an individual transferable quota (ITQ) system is not recommended but it is recommended that transferable quotas be pursued both in the harvesting and processing sectors, subject to appropriate safeguards to avoid undue concentration and to protect against other adverse effects. The next step in the evolutionary process in the harvesting sector would be enhanced ability to combine enterprises within management areas, along with greater flexibility in vessel replacement. There should be a high level of consultation and participation by all stakeholders to enable further evolution in the current system of individual quota holdings through vessel combination and vessel replacement.

Strengths and Weaknesses

These objectives were used to examine the strengths and weaknesses of, and to provide a framework for examination of alternatives to, the current management regime and the existing division of powers for fisheries adjacent to Newfoundland and Labrador.

The existing system has certain strengths. One is the much greater ability of the federal government to pay for such expensive functions as fisheries science, conservation and protection, enforcement, search and rescue and marine safety. The federal government, also, is best placed to manage international fisheries matters and to resolve interprovincial conflict. The federal government is further removed from immediate political pressures than is the provincial government. Some argue that the province lacks a vision for the fishery or does not have the fortitude to make tough decisions that bring negative political consequences. The federal government's control of the major policy instruments is a strength of the present highly centralized fishery management system.

The existing system suffers from the following major shortcomings:

- There is no mechanism to achieve policy coordination and to integrate decision-making affecting the processing and harvesting sectors.
- The Constitution of Canada makes provision for provincial ownership of natural resources only where such resources are on land. The Atlantic Accord of 1985 provides certain powers to the province with respect to hydrocarbon resources on the continental shelf. For sea coast fisheries, this principle of natural resource ownership and/or management does not apply.
- Stakeholders generally have a large amount of influence and the public interest at large is not well represented in the management process. The harvesters' union and the fish processing industry have greater influence with the federal government than provincial authorities.
- There is too much ministerial discretion at both levels.

- There is inadequate involvement at the community level, where much of the impact of fisheries decisions is felt.
- Women have an inadequate voice in the management of the fishery and of the fishing industry generally.

Delivery of Central Functions

We assessed alternative arrangements for the central fisheries management functions in the context of the proposed objectives. While we recommend the functions of fisheries science and fisheries enforcement remain with the federal government, we have concerns about the level of funding for fisheries science, stock assessment in particular, as well as overall fisheries enforcement. While the level of funding for the federal fisheries operations does not appear to have declined in total, there are fewer resources in real terms to carry out core fisheries management functions because of internal re-allocation to new initiatives and annual inflation.

We have examined various mechanisms to strengthen the powers of the province in the management of the fishery. Our conclusion is that constitutional amendment does not offer a realistic prospect for change in the short or medium term. New arrangements to strengthen the province's place in the management of the fishery are needed to achieve the proposed policy objectives. These arrangements should promote participation in conservation decisions for rebuilding depleted stocks and the restoration of bio-diversity and of the fishery habitat. These arrangements, to be acceptable, must either be neutral in their impact on other provinces or, preferably, be seen to be advantageous to all.

The first step should be the creation of a joint federal-provincial fisheries policy board that would report publicly to both fisheries ministers. This board would provide policy advice as requested by either the federal or provincial governments or else on the motion of the board itself. The initial tasking of this board should be to formulate the policy framework for the creation of a joint licensing and allocations authority, as recommended below, because such an authority can work only if there is congruence of policy, covering both the harvesting and processing sectors.

The province should press the federal government for the creation of a quasi-judicial commission to set TACs and manage interprovincial access and allocations. The commission would be similar to the Canadian Radio-Television and Telecommunications Commission (CRTC) and the National Energy Board (NEB). This commission, acting at arms-length, would make major conservation (TAC) decisions based upon a transparent process of receiving evidence from a variety of sources and rendering decisions in the public view. The mandate of this independent board would also apply to new interprovincial allocation decisions caused by such factors as changes beyond pre-specified thresholds of change in a TAC, a quota for a new species fishery or the re-opening of a long-closed fishery. Existing sharing arrangements would otherwise remain in place on a permanent basis.

A third proposed institutional change is the creation of a joint Canada-Newfoundland and Labrador licensing and allocations authority, whose mandate would encompass the harvesting and processing sectors through delegated administrative powers from the province and the federal government. This authority would report to both fisheries ministers and operate under a policy framework agreed between both governments. There would be a provision for joint decisions by both ministers in pre-determined circumstances. Intraprovincial access and licensing decisions would be made based upon interprovincial allocations decided by the federally-appointed fisheries management commission.

Appointments to these three agencies should reflect gender balance, comprising knowledgeable and independent people. The policy board and the allocations and licensing authority will be appointed by both governments, with an equal number appointed by each of the two ministers and with the selection of the chair by mutual agreement.

There is widespread acknowledgement that improved mechanisms are needed to promote greater provincial participation in the major decisions that will shape the fishery of the future. We have just described some of these possible federal-provincial mechanisms. However, other deep-seated societal issues also must be addressed. These issues relate to what we perceive as a deficit in the conservation ethic in this province. This is a deficit shared by stakeholders in the fishing industry, the public and the government of Newfoundland and Labrador. There are too few exceptions to the prevalence of this conservation deficit. For example, we are encouraged by the local actions taken by lobster harvesters in the Eastport area to maintain a sustainable resource for future generations through good husbandry. However, it is all too often the case that when reduced harvests are advised, widespread questioning of the science immediately takes place to rationalize maintaining harvest levels.

We offer some suggestions to address the questions posed by this conservation deficit in a number of ways but believe this issue deserves more attention than we have been able to give it. The public policy issues surrounding the fishery and the collapse of major components of it have not attracted sufficient, if any, informed and objective debate. Such a debate requires a populace much better informed concerning fishery issues.

In addition to this, Memorial University has a vital role to play in fisheries management. The province should support the University in building upon its existing research capacity in fisheries management. This capacity includes the Chair in Fisheries Conservation at the Marine Institute of Memorial University, which is presently supported by the Province. The aim should be to build a strong interdisciplinary group at Memorial University that includes fisheries science but embraces other disciplines as well, including social sciences, education, business and engineering.

The provincial Department of Fisheries and Aquaculture has an important policy role in building a vision of the fishery of the future. Our suggestion is that the role of the Department be reassessed to ensure that it is sufficiently empowered and staffed to advise on important public policy issues and to commission research in anticipation of major issues that are likely to arise.

It is our considered opinion that "the mechanisms that would allow Newfoundland and Labrador adequate participation in the management regimes of fisheries resources adjacent to Newfoundland and Labrador" go beyond federal-provincial arrangements and, indeed, beyond fisheries management, *per se*. These mechanisms include fundamental elements of the society of the province and its institutions.

In this regard, our suggestion is that the House of Assembly play a role in shaping the fishery policy of the future. This could be accomplished by mandating an all-party select committee to examine the fishery from a number of perspectives. The scope of such an all-party committee might include the following issues:

- What lessons should be learned from the collapse of Northern cod and of other major groundfish stocks?
- What innovative techniques can be introduced to resolve conflict in fisheries management?
- How can a stronger conservation ethic be promoted?
- What role can women play in building this conservation ethic?
- How can the schools play a more effective role in educating the general public on the past and future of the fishing industry?
- How can the University play a more prominent role in undertaking applied and objective public policy research in defining the policy options for rebuilding stocks, restoring biodiversity and fisheries habitat and other key components of fisheries management?
- What other societal changes will support a stronger conservation ethic to promote decisions that will benefit present and future generations?

Summary of Recommendations

The following is a summary of the recommendations contained in this report. Further detail on these recommendations is to be found earlier in this summary as well as in the main report. In this summary, we will first list the proposed fishery policy objectives, the new mechanisms whose recommended roles bear directly upon fisheries management functions and then the recommendations that pertain to existing provincial institutions and society.

Alternative Fisheries Policy Objectives

1. Resource conservation must be the dominant objective, including the restoration of bio-diversity and fishery habitat. Management should be highly precautionary; with TAC levels set at the lower end of the range advised by scientists and include a buffer to allow additional assurance against overexploitation. Ecological sustainability cannot be built upon the ecosystem that currently exists, with its degraded biodiversity and a precarious dependence upon historically exceptional levels of shellfish abundance. Concrete objectives for stock rebuilding need to be established for all major demersal, pelagic, estuarial and shellfish stocks. These objectives should include target levels of fishable biomass for stocks such as Northern cod (i.e., 2J3KL), cod on the southern Grand Banks (3NO) and on the St. Pierre Bank (3Ps), cod in the Northern Gulf (4RS3Pn), American plaice and yellowtail, redfish, turbot and capelin. It is not sufficient to establish annual management plans for major species. There should be medium and long-term management plans aiming toward specific levels of stock restoration. One approach for consideration by the Royal Commission is to rebuild the

species diversity and abundance that existed at the time of Union with Canada or else restore the situation that existed prior to massive overfishing.

2. The rights of aboriginal people must be respected in all allocation decisions.
3. Fishery resources must be managed and allocated so that those closest to them derive the maximum benefits. Allocation decisions must recognize the resource-use aspirations of adjacent coastal communities.
4. The industry must generate a competitive return including a premium for the high level of risk involved in fishing. Harvesting and processing enterprises should be allowed sufficient returns to make them viable, allowing a return to labour and capital comparable with returns in other industries where risk is similar.
5. Within the preceding objectives, the level of employment should be optimized, not maximized. This means the aim should not be to maximize employment, nor to achieve the level of employment that would result from maximizing the economic rent. However, employment levels should allow enterprises to be globally competitive and should not impair the viability of harvesting and processing enterprises. When regulatory decisions are taken to add capacity and employment, governments should attempt to measure the impact of such decisions on the viability of existing enterprises. The economic data to allow such measurement should be compiled by government and such data should be readily accessible from harvesting and processing enterprises, on a confidential basis, as necessary information to facilitate the management of a public resource. The federal government has used this type of approach from time to time when evaluating the wisdom of issuing a new licence to prosecute the Northern shrimp resource.
6. Rights-based management systems should continue to evolve for both the harvesting and processing sectors, with appropriate safeguards to ensure that transferability of production and harvesting quotas does not create undue concentration or compromise other objectives of fisheries management. Measures should be taken to improve the ability of enterprises to combine quotas and to allow greater flexibility in vessel replacement.
7. We are proposing the promotion of a multi-species eco-system approach through increasing emphasis on the factoring in of species interactions, predator-prey relationships and habitat considerations in future management measures. This would also echo the Canada *Oceans Act* approaches of ***sustainable development*** of the oceans and their resources; conservation, based on an ***ecosystem approach*** and the wider application of the ***precautionary approach*** to the conservation, management and exploitation of marine resources in order to protect these resources and preserve the marine environment.
8. Measures to promote restoration of depleted stocks must be considered, including a planned reduction in the number of predators, particularly seals, a moratorium on capelin harvesting, and experiments to determine the impact of enhancement and recolonization.

Fisheries Management Mechanisms

1. A federal-provincial fisheries policy board should be established. This board would advise both governments on policy upon the request of either, as well as upon its own motion. This board would recommend as well on management plans for major species and on the allocations that should be made to the province's fleets. It would be the first agency to be established and it would be assigned the task of preparing a plan for the creation of a federal-provincial licensing and allocations authority.
2. The federal government should establish an Atlantic Canada Fisheries Conservation Commission (ACFCC) for making major conservation decisions. This would be a federal commission whose policy direction would come from the federal minister. It would receive conservation advice from the Fisheries Resource Conservation Council and allocation advice from the federal-provincial fisheries policy board. It would make decisions on interprovincial access and allocations.
3. The province and the federal government should establish a Canada-Newfoundland and Labrador Fisheries Management Authority (CNLFMA), within an agreed policy framework. This authority would be given delegated powers from both the federal and provincial governments and its mandate would, in essence, be coordinated management of the harvesting and processing sectors. It would make allocation decisions within the framework of provincial fleet shares set by the federally appointed fisheries management commission.

Appointments to these agencies should be gender balanced, comprised of knowledgeable and independent people.

Provincial Institutions, Public Policy and the Conservation Ethic

1. The province should review the curriculum of primary and secondary schools to ensure that the history and future prospects of the fishery, along with fisheries biology and basic fishery management, are core components.
2. The province should support the creation of a stronger applied and objective multi-disciplinary public policy research capacity at Memorial University, covering all aspects of fisheries science and fisheries management.
3. The province should review the role of the Department of Fisheries and Aquaculture to determine whether its policy role and capability is commensurate with the magnitude of the province's long-term interest in the fishery as a core component of the provincial economy and social structure.
4. The Department, working with DFO and the University should convene an international conference on the rebuilding of cod and other groundfish stocks, with full participation by women.
5. The House of Assembly should create a select committee to examine central aspects of the fishery in Provincial society, including management issues and the role of provincial institutions in enhancing a stronger conservation ethic.

6. The Professional Fish Harvesters' Certification Board should examine measures, including more local availability of training opportunities, to promote the accreditation and professionalization of fish harvesters who are women.

Other

1. It is our recommendation to the Commission that the linkages between income support measures, particularly Employment Insurance, and fishery management be subject to further review to ensure that the success of the fishery is not compromised by the unintended consequences of a well-meaning and firmly established program that injects new funds into the province.

Introduction

This report is structured in accordance with the terms of reference provided to the consultants. In preparing the report the consultants reviewed relevant academic research and government publications. We also held personal discussions with a number of industry representatives, university professors and government officials, including the Minister of Fisheries and Aquaculture for the province. We also met with a number of individuals who had previously been involved in the fishery, either in industry or in government, including a former Minister of the Department of Fisheries and Oceans.

The terms of reference given to the consultants are as follows. The chapter of the report that addresses each component is identified.

Terms of Reference

Purpose

The purpose of this project is to develop options and make recommendations on (1) the objectives that should define fisheries policy governing the use and benefits of fisheries resources adjacent to Newfoundland and Labrador and on (2) the mechanisms that would allow Newfoundland and Labrador adequate participation in the management regimes associated with realizing such objectives. To this end, the paper should:

- Document the fishery management system in place in Newfoundland and Labrador prior to Confederation and how it changed when Newfoundland and Labrador became a province, outlining the existing scope and nature of federal, provincial and international (e.g., through Northwest Atlantic Fisheries Organization (NAFO)) jurisdiction and responsibility for key aspects of resource management. (Chapter 2)
- Provide a brief summary assessment of the apparent policy objectives applied to the management of fisheries resources and of policies applied to the broader industry by

the federal and provincial governments since the entry of Newfoundland and Labrador into Confederation, describing broad trends, without covering every successive administration. This is to cover the principal fishery resource management functions of scientific advice, allocations, quota management and enforcement (i.e., the resource management functions currently exercised by the Department of Fisheries and Oceans) as well as processing sector management policies. The treatment of secondary processing, marketing arrangements, fisheries development, labour relations, occupational health and safety (on sea and on land) and port market price determination will be much more cursory. (Chapter 3)

- Discuss and outline the chief alternative approaches to setting policy objectives for the fisheries in the future (e.g., maximizing economic rent, maximizing employment, maintaining an inshore fishery) with reference to real world experience and to the fisheries economics and other resource management literature. (Chapter 4)
- Provide a brief summary assessment of the strengths and weaknesses of the current management regime and division of powers for the fisheries adjacent to Newfoundland and Labrador, based upon the principal policy objectives arising from the fisheries economics and other resource management literature. (Chapter 5)
- Examine the central functions of scientific assessments and setting of catch limits as well as resource, access and allocation management, and assess whether they can best be conducted at the federal or provincial level or through some shared process; also, similarly review other related fishery management functions (broadly defined to include functions that may not be exercised by either federal or provincial fisheries departments but rather by other federal agencies such as Transport Canada (marine safety) or the provincial Department of Labour (collective bargaining and labour standards). (Chapter 6)
- Outline and discuss potential alternatives to the current management regime in terms of the division of fisheries management functions and the policy framework for undertaking those responsibilities, including joint arrangements, concurrent powers and asymmetrical federalism. (Chapters 6 and 7)
- Where appropriate and available, the analysis should take into consideration the perspectives of both women and men on the policy framework for fisheries. (All)
- Draw conclusions and make specific recommendations among the policy and management regime options for the consideration of the Royal Commission. (Executive Summary and Recommendations and Chapters 6, 7 and 8)

Past and Present Canada/Newfoundland Fishery Management Systems

In this chapter, we examine the fisheries management system that has existed for the Newfoundland fisheries from the time before Confederation until the present. We will document the fishery management system in place in Newfoundland and Labrador prior to Confederation and how it changed when Newfoundland and Labrador became a province and outline the existing scope and nature of federal, provincial and international (e.g., through NAFO) jurisdiction and responsibility for key aspects of resource management.

A brief examination of what is encompassed by the term "Fisheries Management" would be useful before documenting and describing the fisheries management system that has evolved from the time of Newfoundland's Confederation with Canada. It is used by many interests in a variety of ways to cover almost anything pertaining to the fishing industry on a local or national basis. In its broadest sense, it is used to include all aspects of fisheries policy, whether the subject of discussion is harvesting, processing or marketing of fish and fish products. In its narrower sense it refers to the control and direction of the factors of production engaged in the actual catching of an individual species or the totality of species harvested by a specific fishing fleet or in a certain geographic area. In that case it can also be used as diversely as the term "fishery" itself, which is often used to signify the total fishing activity in a country or the operation of a specific vessel class in a given geographical area and every activity in between.

In this paper, we shall endeavour to distinguish, when required, whether it is the management of fishing activities or the management of the complete fishing industry that is under reference. Sometimes we will use that term to refer to the regulation of the harvesting sector, and in that context, we will distinguish the "Core" or "Central" fisheries management functions from those we consider of a more ancillary nature. We will refer to the Core or Central functions as the ones most directly connected to the management of the primary fishing or harvesting operations. These primary functions are those of, directly or indirectly, setting the level of annual harvest (conservation); determining who, as individuals or groups, are permitted to participate in the annual harvest in some specified or authorized manner (access) and establishing the extent or level of shares of the annual catch (allocation). These are the primary functions performed by the central fisheries management authority or shared to some degree with other levels of authority. In the Canadian case, except for the determination of who participates in inland sports fishing activities, these functions are vested in the federal government. In the case of marine fisheries, these primary functions have been those invariably at the centre of disputes between levels of government and between the central management authority and industry participants.

Similar confusion exists around the term "fisheries policy" or "policies". This is often used as a generic term encompassing all matters pertaining to the government's involvement with the industry. In reality, several levels of policy can be specified: from broad and general governmental aims or intentions for the overall industry to detailed approaches to the operation of a single specified fishery. The latter can range from a national or regional level activity (e.g., the Atlantic groundfish fishery) to one that is confined to a small group in a restricted geographic area (e.g., cod gillnet fishery by under 35 ft. vessels in NAFO Unit Area 3Ka). In the later section on the objectives of fisheries management, "policy objectives" will normally be used to refer to the highest-level initiatives or intentions of the management authority. It is not possible in the space permitted here even to mention all the myriad statements of a policy nature for all the individually managed fisheries or activities that now exist. The recent DFO publication "Fisheries Management Policies on Canada's Atlantic Coast" uses the term "policy" 13 times in a listing of 24 "policies, acts and agreements in effect on September 30, 2001…"[1]. We will indicate later that these detailed statements of policy or objectives for individual fisheries are now largely the consensus results of continuous consultations with license holders and other industry interest groups, including provincial governments.

The Newfoundland Fishery Management System

The Pre-Confederation Period

During the Responsible Government period, a (Newfoundland) Fisheries Royal Commission in 1888 proposed a centralized bureau devoted to fisheries research and assistance to address problems it identified in the area of "uncoordinated resource planning and development".[2] An independent Fisheries Commission, established in 1889 with a small administrative and scientific staff, was the start of Newfoundland's statutory regulation of the fishery.[3] (Acts of the British Parliament were passed for the regulation or control of the Newfoundland fishery at least as early as 1788.)[4] Mr A. Nielsen became the first Superintendent of Fisheries under the Fisheries Commission. Before he returned to Norway in 1897, he had established a fish hatchery, proposed rules and regulations for the proper management of the fishery, prepared reports and suggestions for the proper curing of fish and established a Bait Intelligence Service.[5] The first separate department devoted to fisheries matters, the Department of Marine and Fisheries, was established in 1898. This was something Nova Scotia and New Brunswick would not do until the 1960's.[6] The government established the first fisheries research station at Bay Bulls in 1931. This was the predecessor of the Fisheries Research Board of Canada activities in Newfoundland.

In 1934, Commission of Government took over the colony and fisheries administration became part of the Department of Natural Resources along with mining, forestry and agriculture. In 1936, the Newfoundland Fisheries Board was established to oversee all aspects of the catching, processing and marketing of fish and fish products.[7] The Board reported to the Commissioner of Natural Resources but was in effect a separate fisheries administration. On Newfoundland's entry into Confederation, a provision in the Terms of Union provided for the remaining in force of all orders, rules and regulations made under Newfoundland Fisheries Laws for at least five years or until altered by the Parliament of Canada.[8]

In the half-century or so leading up to Confederation, the primary concerns and activities of the various fisheries administrative bodies involved the control and/or development of production and marketing in the salt fish industry. There were no catch quotas or other conservation-directed measures except for some purely local fishing rules. The main focus centred on the fluctuating, and often low, levels of export earnings from the un-disciplined marketing of usually poor and inconsistent quality salt fish. Indeed, the general intention of government over much of this period (and even into post-Confederation years) was to maximize export earnings from the fishery so that surplus labour could be thereby accommodated.[9] Other fisheries initiatives were undertaken to develop new processing activities (fish freezing), improve the quality of products from other species such as herring and modernize fishing vessels and gears. Regulations were developed over the 1900-49 period to control local cod and salmon fishing through a series of measures that eventually included minimum mesh sizes, rules to conduct random berth draws, minimum mesh sizes for cod traps and cod nets, spacing from previously set gear, and closed areas for specified gears.[10] While some of these regulations had the indirect effect of limiting access on a localized basis, there was no consideration given to limiting the total numbers participating in the overall fishery or to directly limiting catches of any species. Nor were there any attempts to restrict harvesting or processing capacity. Lobster regulations were also developed that included closed seasons, minimum lath spacing and carapace size, as well as licensing requirements for processors and exporters for the purpose of quality control and improved marketing.[11] There is a reference to "developing local cod fishing regulations" in the Board's 1937 Annual Report and to "hopes of instituting an efficient system of lobster conservation" in its 1938 Annual Report. However, there is nothing else in these 13 annual accountings of the Newfoundland Fisheries Board from 1937 to 1949 to indicate any ongoing priority of regulating the fish catching activities of the colony.[12] These annual reports are primarily accounts of the year's salt fish production and market results as well as data on the final product quantities and values of other fishery production such as pickled and cured herring, pickled turbot, canned and fresh salmon, fresh and canned lobster and frozen groundfish fillets.

The array of fisheries legislation enacted by the Commission of Government reveals an involvement with a wide range of fisheries matters, primarily in the areas of processing and marketing. The following, while not necessarily a complete list of the various fisheries acts in force during the 1934-49 period, indicates the extent of this involvement: the Natural Resources Act, Export of Herring Act, Salt Codfish Act, Newfoundland Fisheries Board Act, Whaling Industry (Regulations) Act, Bank Fishermen Protection Act, Game and Inland Fisheries Act, Fish Oil and Meal Act, and the Shipbuilding Assistance Act. There were also numerous sets of specific regulations related to the processing, culling, packaging and export of salted cod; canning of cod and other species; production and export of pickled turbot, dried squid, pickled and cured herring.

In the Responsible Government period, Newfoundland could legislate to manage or control any aspect of its domestic fishery activities. There do not appear to have been any problems with the British Government's disallowing any Newfoundland legislation in this area. However, in the case of its efforts to control certain foreign fishing activities it was less independent of London. The Bait Acts of 1886 and 1887 were disallowed as passed by the Newfoundland Legislature because of objections from Canada and France, and those of 1904-05 because of complaints from the United States. In the latter case the British Government also refused to ratify the Bond-Hay Convention of 1902[13] and reached its own understanding (on trade and fishing arrangements in respect of Newfoundland) with the Americans.[14]

Under Commission of Government, London was directly in charge of all Newfoundland's international affairs or diplomatic initiatives. In such a situation, it is unlikely that any fishery legislative proposal considered inimical to British interests (or those of its major allies) would have succeeded. Throughout much of that period, actions similar to the Bait Acts, that had been aimed at reducing fishing competition by foreign countries, did not seem to have been considered necessary; American and Canadian fisheries (especially during the War years) were seen to be less of a threat to Newfoundland's overseas markets and even less to its small North American outlets. At that juncture in history, the types of territorial seas and fishing zone extensions that would develop some three decades later were not even contemplated.

By the end of, indeed for most of, the Commission of Government period Newfoundland had in its Fisheries Board "one of the best fisheries services of that time".[15] However, as will also become evident from the ensuing section on the Canadian fisheries management system, measures to ensure conservation of ocean resources still were not considered necessary. The later issues of overcapacity and overcapitalisation were still not recognised as requiring the application of specific fisheries management measures. Such conservation-oriented measures as were implemented were directed at coastal fishing activities, sedentary species or those that had a sport fishing usage such as salmon. In the first of these cases, the various rules and regulations were really "rules of the road", more related to orderly fishing than to conservation or control of total fishing effort and catches. The main preoccupation of government was industry modernization and development to ameliorate the economic difficulties that always seemed to characterize its saltfish-dominated industry. That was largely where the colony still found itself on the eve of becoming a province of Canada, where it would no longer have the wide range of powers of an independent Dominion (except for international matters) to legislate for all aspects of its fishing industry.

Post-Confederation

Within months of Newfoundland's becoming a province of Canada, the government re-established a separate fisheries department with the creation of the Department of Fisheries and Cooperatives in December 1949. Section 9 of the Department of Fisheries and Cooperatives Act states: " The duties, powers and functions of the Minister shall extend to and include all matters relating to the management generally of fisheries and cooperatives and fishing and cooperative development in Newfoundland, over which the Legislature of Newfoundland has jurisdiction .... "[16]. Around the same time the Fisheries Loan Act provided for the establishment of a body (Fisheries Loan Board) to make loans directly to fishermen, cooperatives or companies engaged in the general fish business.[17] By 1951, most of the major pieces of fisheries legislation that were then considered necessary at the provincial level were in place. These included activities over which the province had the right to legislate,[18] including fish inspection, payment of a bounty on repair and rebuilding of fishing vessels, sale and distribution of salt, production of oil and meal and general fisheries development.[19]

The provincial government embarked on initiatives to develop and modernize the fishery during the 1950s, 1960s and most of the 1970s. Some of the early activities included the setting up of a Fisheries Development Authority within the Department of Fisheries and Cooperatives. It would have a higher profile than the department for the next two decades. A Division of Fisheries Education was also established early on and was followed in 1958 by travelling schools for fisheries training. These fisheries educational program initiatives culminated in the formation of the College of Fisheries, Navigation, Marine Engineering and Electronics in 1964. Some of the specific fisheries development initiatives undertaken included bounties for construction of fishing vessels, financial assistance to establish freezing plants and acquire offshore trawlers, construction of new government-owned processing plants and assistance to local shipyards.[20]

The government also initiated a series of Royal Commissions, Committees and special Conferences that were designed to provide solutions to various problems in the fisheries. These included the Fishermen's Convention of 1951 that resulted in the formation of the

Newfoundland Federation of Fishermen, the Walsh Commission (the joint federal-provincial Newfoundland Fisheries Development Committee) of 1953, the South Coast Commission of 1957, the provincial National Fisheries Development Proposal of 1963 and the 1967 Royal Commission on the Economic State and Prospects of Newfoundland and Labrador.[21] All these called for a variety of measures, including marketing boards and revitalisation of the inshore fisheries, most of which were not adopted. In spite of its own similar initiatives, many of these efforts were aimed at changing federal policies considered anti-inshore/saltfish and in favour of capital-intensive freezing operations supplied by year-round offshore vessels.[22]

The inclination to expansion of the fisheries continued unabated into the 1970s and early 1980, especially after extension of Canadian fisheries jurisdiction in 1977. The provincial government continued assistance in the form of loan guarantees to processing operations and actively supported increases in the number of larger fishing vessels. In addition, the first federal/provincial general development agreement was signed in 1975, ushering in a new era of joint funding (usually 90 per cent Federal) of fisheries development activities. The establishment of the Canadian 200 mile limit spawned a combined (Nova Scotia, Newfoundland and Prince Edward Island) provincial fleet expansion proposal to the federal government.[23] The federal rejection of this proposal led to a campaign by Newfoundland and Labrador to acquire increased fisheries jurisdiction, which will be detailed in later pages.

In 1971, the province took one significant step in exercising powers within its jurisdiction when it gave Newfoundland fish harvesters the right to unionize and to bargain collectively with fish buyers through passage of The Fishing Industry Collective Bargaining Act. This put Newfoundland well in front of other Atlantic Provinces in giving such rights to fish harvesters. The late 1970s and the 1980s saw a redevelopment and enlargement of the provincial fisheries department and the adoption of a more proactive role in defining positions on fisheries policies. This period saw the province produce "a very considerable number of well researched and articulate White Papers, Policy Statements and special studies.... Most of these documents were aimed at economic development questions".[24]

In the middle of these developments came the collapse of most major fish processing companies in the Atlantic Provinces and the subsequent restructuring of the offshore sector of the industry. In Newfoundland, this resulted in the formation of Fishery Products International from the remnants of Fishery Products Ltd, the Lake Group and the Newfoundland holdings of H. B. Nickerson. This was accomplished at a cost to governments of some $200 million: a cash infusion of $167.6 million over four years (1984-87) by the federal government and a conversion of debt to equity of $31.5 million by the Newfoundland government.[25]

The ensuing years of the 1980s and the 1990s would see the province take an increasingly proactive role in managing the size and shape of its processing sector. Licensing polices were developed, and reflected in regulations passed under the Provincial Fish Inspection Act of 1954 (and amended), to control entry to the processing sector by requiring licences for different types of processing activities. Processing plant licences were first required in 1975 and became limited by main species in 1979. A general freeze on numbers of licences and imposition of capacity controls followed in 1981. This policy was modified in 1997 to take account of the new raw material situation by adding a concept of Core and Non-Core licences.[26] By the end of the 1990s, this had resulted in direct control by provincial authorities of the number and types of fish plants permitted to operate.

The provincial government also intervened in the processing sector through its various quality enhancement initiatives in the latter half of the 1990s. Standards for handling, storage and transport of raw material were instituted as well as mandatory grading systems for crab, shrimp and cod. These were incorporated in Collective Agreements for those species.[27]

The approach to fisheries development, which had long been the major provincial activity, changed in several ways over these last two decades as well. The early attempts at regional development tended to be a series of individual initiatives or programs under the Fund for Rural Economic Development (FRED) and then the Agricultural and Regional Development Administration (ARDA). The formation of the federal Department of Regional and Industrial Expansion (DRIE) resulted in the beginning of the general development agreement (GDA) approach which involved formal cost-shared agreements delivered jointly by the two levels of government. Initially these were between DRIE and the province directly, but soon involved the federal fisheries department as the co-deliverer on the federal side. However, by the mid-1980s, direct operational and capital subsidization would also go by the wayside, as would development of additional catching capability for traditional species. By the end of the 1990s, fisheries development would be aimed more at conservation enhancing fishing activities and increased utilisation of a reduced raw material base.

Although the provincial initiatives to obtain an increased role in marine fisheries jurisdiction failed, the two levels of government did reach an agreement on management of aquaculture. The Canada/Newfoundland Memorandum of Understanding (MOU) on Aquaculture, signed in 1988, put aside the question of jurisdiction over this activity and provided for a provincial lead on the licensing of such operations. The provincial department processes aquaculture licence applications and aquaculture licenses are issued by it after all other regulatory agencies certify that the operation meets their requirements. While this may not be the sort of fisheries management authority the province originally sought, it is a form of shared legislative activity. The other, of more long standing, is that of inland sports fishing where the authority to legislate for conservation is federal and the right to issue fishing licences is provincial. The federal authority determines the conservation measures required through its scientific assessment and consultative activities, the province sets the licence fee and issues the licences and both now conduct enforcement activities.

While the Newfoundland provincial role in management of commercial marine fisheries has not changed much in legal terms since Confederation, more and more of its efforts now complement federal activities. The province, as well as the federal side, no longer directly subsidises the acquisition of vessels, plants or equipment; while boat-building subsidies, guaranteeing of loans to the processing sector and the granting of loans directly to fishermen have all ended. Operationally, the province conducts fisheries development activities in concert with the federal authorities through formal cost-shared agreements that reflect mutually agreed current fisheries management priorities or problems. The province takes part in the extensive federal fisheries consultative arrangements in place provincially and at the Atlantic and national levels. It is a signatory to the 1999 Agreement on Interjurisdictional Cooperation (See p. 12 below). Its role in respect of the processing sector has gone from one of wholesale encouragement of expansion to one of restricted entry licensing and capacity control. The sections of the Report of the Special Panel on Corporate Concentration dealing with the evolution of processing licensing and associated policies is almost a mirror image of commentary on federal fisheries licensing activities over the past 30 years.

The province passed legislation in 1996 providing for a Certification Board to administer the Professionalization of Fishermen program that is essential to the federal authority's new Core Licensing system. In 1998, the province authorized a pilot project on the use of interest-based bargaining using final offer selection under its Fishing Industry Collective Bargaining Act. The use of this approach was confirmed by an amendment to that Act in 2000.

These initiatives have put the province in much the same situation in respect of its area of jurisdiction, as is the federal government. Both have moved from a development and expansion mode to one that is more concerned with overcapacity and overcapitalization and the consequent effect on social and economic conditions of those engaged in the fishing industry. Both levels of government now seem more intent on achieving some improved measure of economic efficiency in the industry while still accommodating some of the other conflicting wishes of industry proponents.

The Canadian Fishery Management System

The Division of Powers

The division of powers of the federal and provincial governments to legislate for management of the fishing industry is such a critical element of the Canadian management system that a review is warranted before describing the federal system of the past 50 years or so. This is basic to a fuller understanding of why the fishing industries in Canada are managed as they are.

The management of commercial fisheries in the Dominion of Canada commenced with passage of the first Dominion Fisheries Act in 1868. (The first comprehensive fisheries legislation in British North America had been passed by Upper Canada in 1858).[28] The authority for the extensive federal powers encompassed in this legislation came from the Constitution Act (BNA) of 1867, Section 91 (12) of which gave the Parliament of Canada exclusive legislative authority over sea coast and inland fisheries. Provinces, on the other hand, were given authority over natural resources within their boundaries, property and civil rights and provincial public lands. The Dominion Fisheries Act of 1868 authorized the Minister to issue (or authorize to be issued) licences or leases for fisheries and fishing anywhere that an exclusive right of fishing did not already exist by law. While "for more than 30 years following Confederation the federal government exercised unchallenged authority in fishery matters",[29] the courts would render several judgements that further delineated and clarified the scope of federal versus provincial powers over fisheries.

Parsons[30] gives an excellent review of the development of distinctions between federal and provincial powers, which is the basis of much of what immediately follows, unless otherwise noted. The Supreme Court, in the case of The Queen v. Robertson, in 1882 ruled that the federal Minister did not have the power to issue fishing licences or leases for non-tidal portions of rivers. It also concluded that there existed an exclusive right to fish in such waters that belonged to the provinces. The Privy Council decision in the Ontario Fisheries Reference of 1898, while upholding the authority of the province to legislate on matters of property and civil rights in fisheries, did confirm the exclusive federal power to regulate the fisheries, both coastal and inland, as to the type of fishing gears, catch limits, closed seasons and species and size of fish. In 1914, the Privy Council ruled in the B. C. Fisheries Reference that the province had no jurisdiction over any aspect of fisheries in tidal waters. The Privy Council, in the Quebec Fisheries Reference of 1921, concluded that the federal Parliament had exclusive jurisdiction over fishing in all navigable waters, even when non-tidal, but that fishing with gear attached to the soil did not constitute a public right to fishing and hence was not exclusive federal jurisdiction.

The first delegation of administrative control over inland fisheries occurred in 1898 when the federal government transferred this power to Ontario for both sport and commercial fishing in its waters. At that time, it transferred only control of inland sport fishing to Quebec because of the dispute over management in tidal waters that led to the Quebec Reference of 1920. Following the 1921 decision in that case, and because all fishing in mainland Quebec at that time was by fixed gear, the federal government delegated powers to Quebec in 1922 to administer all fisheries in tidal waters subject to regulation by the federal government as to the conditions under which such fishing is carried out. The fisheries around the Magdalen Islands were not covered by this delegation because of the ways in which they were prosecuted; this delegation did take place in 1943. In 1984 the federal government, rather quietly, re-assumed administration of commercial fisheries management in Quebec.

In its 1930 decision on the (B.C.) Fish Canneries Reference, the Privy Council decided that the federal government had no authority to license canneries as these were within the provincial right to legislate on property and civil rights. Fish caught in tidal waters remain under federal control until landed on provincial territory or taken out of Canadian fishing zones. Fish processed for export are subject to the requirements of the federal Fish Inspection Act. This decision was the final determination of the division of powers in respect of British Columbia and the other coastal provinces. Essentially, the federal authority controlled all fish catching activity while the province could manage non-export processing activities and licence access to sport fishing.

In 1929 and 1930, the Government of Canada entered into agreements with Manitoba, Saskatchewan and Alberta regarding natural resources that provided for the rights of provinces to administer all the rights of fishery subject to the federal legislative jurisdiction over seacoast and inland fisheries, i.e. conservation. When Newfoundland joined Canada the provisions of the British North America Act (BNA) were made applicable and the federal government's exclusive power of legislating for inland and coastal fisheries became effective in the new province. The Terms of Union did provide for all Newfoundland fisheries laws to remain in effect for a period of at least five years or until changed by the Parliament of Canada. The division of powers that had developed to that time came to apply in Newfoundland as well. While the province retained control over inland sports fishing, in 1954 it passed administration of this to the federal government, while retaining the right to issue sports fishing licences. In that case, the situation today is largely unchanged; the federal government sets the fishing rules as to times, methods and quantities, the province issues the angling licences and both now carry out surveillance and enforcement.

The federal power to legislate for fisheries in tidal and non-tidal waters was initially interpreted to apply to measures intended only for the regulation, preservation and conservation of fish and fisheries. The courts, at the Trial Division level, confirmed this view as late as 1978 in the case of the Interprovincial Cooperatives v. the Queen. Again, the 1984 decision in the

Gulf Trollers Association v. the Minister of Fisheries and Shinners case rejected the federal claim to manage for social and economic purposes. As a consequence, the Fisheries Act was amended to give the minister sunset powers to allocate for economic and social benefits. However, before that sunset period ran out at the end of 1987, the Federal Appeal Court had overturned the 1984 trial Judge's decision in 1986. This decision was later upheld in the McKinnon v. Canada case of 1987. The federal government was now clearly empowered to continue the management of fisheries for social and economic reasons as well as conservation that it had begun in the early 1970s.

From the late 1970s and until the early 1990s, a series of proposals were made by Newfoundland to change the division of fisheries legislative or jurisdictional powers. Much of this debate took place as part of the Constitutional discussions of those times. The Newfoundland position was initially a call for concurrency with provincial paramountcy over such matters as allocation of federally set quotas, harvesting plans and licensing of vessels and fishermen. This failed to make it through the various constitutional negotiations that led to the repatriation of the Constitution in 1982 and fared no better in later constitutional negotiations that produced the Meech Lake Accord.[31] During the ratification period for that agreement, the provincial position changed with a new government to one of joint management along the lines of the Canada/Newfoundland Offshore Petroleum Board. However, this proposal died when the Meech Lake Accord was not ratified, and no progress was made on changing fisheries jurisdiction in the Charlottetown Accord negotiations. When Canadians rejected that Accord in October, 1992, the fisheries jurisdiction issue had already been overtaken by other imperatives such as the groundfish moratoria and subsequent efforts to rebuild stocks and transform the fisheries.

Since that time this has not been a frequent federal/provincial discussion topic. The provinces and the federal government signed an Agreement on Interjurisdictional Cooperation in 1999 that commits all parties to consult on major initiatives or actions and give each other prior notice on changes to policies affecting fisheries, habitat and aquaculture. It also established the Canadian Council of Fisheries and Aquaculture Ministers (CCFAM), supported by a Committee of Deputy Ministers and an Interjurisdictional Working Group of officials. Recently, however, the provincial Special Panel on Corporate Concentration in its report recommended: "A Canada/Newfoundland and Labrador Fisheries Policy Co-ordination Council be established to make recommendations to governments on major public policies relative to the harvesting sector, the processing sector, marketing, quality enhancement and fisheries development opportunities and strategies".[32]

The Pre-1949 System

The first Canadian fisheries management administration, the Fisheries Branch of the Department of Marine and Fisheries, was established in 1867. A separate Department of Fisheries was set up in 1884; but administration of fisheries was again carried out by a Fisheries Branch; first of the Department of Marine and Fisheries from 1892 to 1914, of the Naval Services Department from 1914 to 1920 and again as part of the Department of Marine and Fisheries until 1930. A separate Department of Fisheries again existed from 1930 until 1960 when a Forestry component was added to make it the Department of Fisheries and Forestry. Fisheries management was handled by a Fisheries and Marine Service in the Department of the

Environment starting in 1969, and in the Department of Fisheries and Environment from 1976 to 1979 when the current Department of Fisheries and Oceans (DFO) was established.[33]

As was true of the Dominion of Newfoundland, the Canadian fisheries management system in the pre-1949 period focused largely on conservation of coastal and sedentary species or those with a sport fishing usage. There are probably two reasons for this: one was the prevalent view that resources of the oceans were plentiful; and the other was that, in any event, countries then could only control fishing activities in a narrow three mile zone. The primary purpose of early fishing regulation was to protect those species considered most vulnerable to fishing pressure, i.e. the fish and shellfish caught close to shore and the freshwater and anadromous species. These were regulated with a variety of measures such as fishing districts, seasons and minimum size limits.[34]

There was no real regulation of the cod and other groundfish fisheries, other than local fishing rules, before the 1940s, except for a limitation on the number of trawlers permitted in the 1920s and 30s.[35] However, this changed by the end of World War II when government concentrated on developing a trawler-supplied frozen fish industry in preference to the salt fish sector.

The Post-1949 System

In the post-war years, fisheries management was really development, expansion and modernization. This thrust continued well into the early 1970s both as a means of expanding the Canadian fleet's operations into other species and as well as competing with the increasing foreign fleets now fishing in the Northwest Atlantic. "This age of innocence"[36] would end with the groundfish resource crises of the late 1960s and early 1970s.

The first groundfish catch quotas were established by the International Commission for the Northwest Atlantic Fisheries (ICNAF) in 1970, followed by herring quotas in 1972. By 1974 all major groundfish in the ICNAF area were under quotas established at the MSY or F_{max} level[37] and divided amongst members. While these first tentative steps were taken to control catches, Canada was introducing limits on entry to various Atlantic Coast fisheries, including groundfish and major shellfish and pelagics. In addition, restrictions were imposed on the replacement of fishing vessels, starting with the offshore fleet in 1974. This was the start of what would become a very extensive and continuing set of controls on the numbers of fishermen permitted in different fisheries, the size of vessel they could operate as well as the type and/or amount of fishing gear they were authorized to use.

Before the first industry crisis of the late 1960s, Canada had extended her fishing zone to 12 miles by adding a nine-mile fishing zone beyond the three-mile territorial sea in 1964. A further step in this extending of Canadian fisheries jurisdiction took place in 1972 when a general 12-mile Territorial Sea and Fisheries Closing Lines in the Gulf of St. Lawrence (and Juan de Fuca Strait) were established. These two areas thus became Canadian Fisheries Waters. In 1977, Canada declared a 200-mile limit in accordance with the new internationally accepted Law of the Sea. NAFO would replace ICNAF in 1978 to assume responsibility for management of groundfish (and latterly shrimp) stocks that straddled or were completely outside Canada's 200-mile limit. NAFO would suffer much the same fate as ICNAF in terms of its ability to effectively manage fish stocks in a multi-lateral setting. Newfoundland fishery interests would subject it to much the same criticisms as its predecessor for ignoring scientific advice in setting quotas and having no effective enforcement capability other than that provided by its more conscientious Contracting Parties.

By 1977, as Canada was preparing to manage a much enlarged fishing zone, measures to control domestic fishing continued to be imposed. All entry to the groundfish fishery was closed except for under 35 ft. vessels; offshore licences had been frozen in 1974 when the size of replacement offshore vessels had also been set; licences for the 35-65 mobile gear fleet were frozen in 1976 and vessel replacement rules introduced for them as well. By this point also, entry to the Newfoundland lobster and crab fisheries was made limited. By the mid-1980s, licences for the fishing of all individual species (except 2J3KL cod by under 35 ft. vessels) would be limited entry.

The first Groundfish Management Plan was established in 1977 to manage the setting and allocation of groundfish quotas among Atlantic fishing fleets. This was the initiation of what would become a complex and often controversial annual process of providing the Minister with advice on Total Allowable Catches (TACs), the sharing of them and a host of other management measures. Coincident with this was the establishment of the Canadian Atlantic Fisheries Scientific Advisory Committee (CAFSAC) to provide scientific advice on management of fisheries in the newly expanded Canadian Fishing Zone. The Atlantic Groundfish Advisory Committee (AGAC) was formed in 1979 to replace the Offshore Groundfish Advisory Committee (OGAC) that had been set up in 1974 when offshore licensing became limited entry. AGAC was the forum for annual consultations on the setting of groundfish TACs and the allocation of them amongst competing fleets across the Atlantic area after identification of surpluses for foreign allocations. This committee, together with the Northern Cod Seminar of 1979 and the Gulf Groundfish Seminar of 1980, would be the vehicles that developed a complex array of groundfish allocations and fishing rules through the 1980s and, indeed, right up to the first groundfish moratorium in 1992. Scientific advice was debated at AGAC, allocations vied for and often conflicting positions remained that had to be decided by the federal Minister. By the late 1980s, this annual process involved follow-up Deputy Minister level discussions of outstanding quota or allocation issues through the Federal-Provincial Fisheries Advisory Committee (FPAFC) and ministerial consultation through the Atlantic Council of Fisheries Ministers (ACFM).

The annual Groundfish Management Plan became the model for development of similar arrangements for all major species across the Atlantic region. The Groundfish Management Plan led the way in developing a multitude of management measures that would eventually be applied to the fishing of most major commercial species. These included sub-allocation of quotas by areas, vessel size classes, gear types, directed and non-directed fisheries, fishing seasons and time-period catch limits and by any combination of the above. A series of important criteria for priority of quota access also grew out of the fishing plan process, including some of the first examples of the principle of adjacency and priority to the inshore fleets in most coastal stocks. Interestingly, at first inshore groundfish fisheries were managed by an allowance system[38] within the overall Canadian quota.[39] This changed for all stocks in 1981 except for Northern cod where the allowance approach continued to be applied up to 1991.

By 1981, with another groundfish industry crisis looming, the department adopted the $F_{0.1}$ standard[40] for the setting of TACs for all groundfish stocks where data availability made such assessment methods possible. In fact, the reference point for setting the Northern cod TAC was adopted as less than $F_{0.1}$ to permit faster rebuilding. As part of the ongoing measures to curtail increases in groundfish catching capacity, entry for all inshore (<65 ft.) vessels was frozen, except for fixed gear operations in 2J3KL by fulltime fishermen. This would continue until 1990 when this last remnant of open entry to a commercial fishery was eliminated.

In 1979 the "Fleet Separation Policy" was introduced under which processing companies were prevented from owning any more fishing licences, for under 65 ft. vessels, than those held in 1979. (Despite several attacks and reviews this policy has survived to the present day.) In 1981, the Full-time/Part-time Categorisation of fishermen was introduced because of the recommendation of the Levelton Report on Atlantic Commercial Fisheries Licensing and the wide support for this concept amongst Newfoundland fishermen. This would be the cornerstone of inshore licensing policy for almost a quarter of a century, until replaced by the concept of Core licensing in 1996.

It was becoming clear that, even with limitation of entry, excess fishing effort could still exist, or be quickly created, to produce disastrous "races to the fish". The next steps in the evolution of effort control measures would be the adoption of Sector Management for under 65 ft. groundfish vessels and the start of non-transferable Enterprise Allocations (EAs) in the offshore groundfish fleets in 1982. The Sector Management policy prevented under 65 ft. groundfish vessels from roaming beyond their homeport DFO region and allowed management of the activities of these fleets to be tailored to local regional resource conditions.[41] It effectively meant that the only Atlantic-wide groundfish licences and allocations would be those held by vessels over 65 ft. This EA approach for such vessels over 65 ft. was based on controlling outputs instead of inputs, thus allowing operators to tailor their fishing activities as they desire by removing the necessity to compete with others. Eventually these offshore EAs gave each offshore company a fixed percentage share of each groundfish quota based on their past fishing history. This measure, together with restructuring of the offshore companies in 1983 and the subsequent groundfish declines of the 1990s, completely eliminated the concept (and the necessity) of individual vessel licensing for offshore trawlers. The offshore trawler fleets have been rationalized by these factors to only a fraction of their numbers before the adoption of EAs.

Other Atlantic fleets would also adopt this approach of individual shares, with the next Newfoundland fleet to do so being the 4R Under 65 ft. Mobile Gear fleet in 1983. While no other inshore fleet would adopt these arrangements before the groundfish moratoria it has since become the preferred approach in virtually all licensed fisheries managed by catch quotas.

Even though this has proven to be a method that produces immediately improved fishing operations management, authorities remain un-convinced of the conservation incentive proponents claim individual shares give to the holders. As a result, these schemes are voluntary on the part of licence holders who must work out sharing formulas and pay for the costs of monitoring such arrangements. To date there are no transferable individual share arrangements in any Newfoundland fishery (except for the cod allocation of the 4R mobile gear fleet), primarily because inshore licence holders are fearful of the possible consequences (concentration of quota holdings and corporate control of inshore fishing licences). For all these reasons, and a continuing concern, in some quarters, of latent groundfish catching capacity, replacement rules continue for under 65 ft. vessels. For those in the 35–65 ft. category this is now based on a volumetric measure approach that restricts the replacement vessel to a specified maximum overall length and cubic number limit. While a slightly more flexible set of these rules was authorized in 1997 (Supplementary Vessel Replacement Rules) because of the more distant fishing operations in the crab and shrimp fisheries, there is likely no short-term end in sight for such measures. Although, as this is written, DFO has released a discussion document on proposals to revise these rules.

With the imposition of the groundfish moratoria and then the lack of any real recovery in most stocks, the 1990s became a period of adjustment to a new set of realities. It became more and more obvious that the numbers engaged in the pre-1992 groundfish fisheries could not be sustained in a fishing sector that is now almost completely based on shellfish, mainly crab and shrimp. An inshore groundfish licence retirement program began as part of the Northern Cod Recovery and Adjustment Program (NCARP). This was intensified under The Atlantic Groundfish Strategy (TAGS) and the sequels to it. By its termination in 2000 about 50 per cent of the pre-1992 inshore groundfish licences had been removed as well as significant numbers of other licences held by those departing the industry. While this has improved the lot of those remaining, in those areas where cod was the mainstay (parts of southern 3L, northern 3K and Labrador), small boat operators now rely, mainly or solely, on small allocations of inshore crab for their fishery earnings.

In 1992, the department established its Aboriginal Fisheries Strategy (AFS) that was designed to handle the implementation of the Sparrow Decision and the direction of the Supreme Court to consult with Aboriginal groups who might be affected. The Marshall Decision of 1999 would expand the treaty rights of certain First Nations to include earning a "moderate livelihood" from fishing. This caused the department to undertake a new series of negotiations with the affected groups to establish arrangements to accommodate their fishing interests.[42]

In 1993, the Fisheries Resource Conservation Council (FRCC) was established to broaden the scientific base of stock assessments and to provide the Minister with public advice on the management of groundfish stocks developed in a multi-disciplinary and integrated fashion. This was to remove the perceptions that the Minister often ignored advice of the fishery scientists or was given other private advice that was not disclosed to the industry. The advice of FRCC is made publicly to the Minister who then must similarly accept or reject the advice. This process has been in place for almost a decade. The recommendation of the Independent Panel on Access Criteria[43] to expand the mandate of FRCC to other species was deferred on November 8, 2002 by the minister of DFO, as a separate internal review of that mandate is under way.[44]

In addition, in 1993, the minister of the day released a discussion paper on a proposal to establish an independent Atlantic licensing and allocation board. Again, the purpose was two-fold: to remove the thankless burden from the minister of deciding numerous licensing and allocation cases and to put the decision-making on these matters in the public view. The independent board would make licensing and allocation decisions within stated policies established by the Minister. The overall industry reaction was luke-warm and the proposal died with the change of government. Some additional detail on this proposal appears in the next chapter.

A central part of the post-1992 adjustment measures was the introduction of Core licensing of inshore fishing enterprises in 1996, based on a recommendation of the Cashin Task Force report of 1993. Under this approach, the eligibility to retain and receive licences has moved from a solely individual to a fishing enterprise basis. A fixed group of Core licence holders was created at the enterprise head level from those who met specified fishing history requirements.

A person desiring to become a Core licence holder can only do so by acquiring an existing qualified enterprise from someone exiting the fishery. The route to becoming a Core licence holder requires participants to progress through a Professionalization and Certification system that included a combination of sea time and specified educational courses. A certification board created under provincial legislation, and of which almost all members are qualified licence holders, manages this part of the process. The Core enterprises are the only ones who now can receive a licence on transfer from another holder, or on issuance, if new licences are made available.

The Canada Oceans Act entered into force in 1997, expanding the responsibilities of the department and the minister to include management of Canada's oceans as well as the fish in them. This new initiative did not receive incremental funding but is being implemented by the department through internal re-allocation. The objectives of this Act, in addition to addressing social, economic and environmental objectives in the three oceans, involve codifying principles of conservation and sustainable development through an ecosystem and precautionary approach and integrated management. The department is still developing a system of integrated oceans management to coordinate decisions about the many competing uses of the oceans.[45]

In 2000, the Department began its Atlantic Fisheries Policy Review exercise. It has now finished the stage of consultations on a discussion paper for possible future management approaches. The next step is the release of a paper on more definitive new approaches for future management. Because this has been discussed only with the External Advisory Group to date, there is nothing definitive enough to warrant further attention here.

On December 11, 2001, the United Nations Fish Agreement (UNFA) came into effect with the obligatory 30 nations having signed. This Agreement requires nations to cooperate in the management of straddling and highly migratory fish stocks. Canada is obliged to ensure that the 12 principles of the Agreement are enshrined in its own fisheries management system. It also calls for high seas enforcement through Regional Fisheries Management Organizations (RFMOs), e.g. NAFO, and a binding dispute mechanism for members of RFMOs. It calls for compatibility between measures to conserve stocks that straddle national zones such as Canada's.[46]

In March 2002, the report of The Independent Panel On Access Criteria was completed.[47] This Panel had been formed primarily because of the furor that arose in this province over the allocation of Northern shrimp to PEI interests. In essence, the Panel proposed a series of access criteria for stocks with significant increases in abundance and newly emerging fisheries that are little more than a sanctioning of almost all practices to date. (See page 67 below). In recognising the sometimes impossibility of reaching a consensus on access to fish resources it recommended an Atlantic allocation and access advisory committee instead of a decision-making board that was dropped as an option almost a decade ago. On November 8, 2002 the DFO minister did not accept this recommendation for an advisory board, but did accept the criteria for deciding on allocation of access.[48] This leaves the issue of allocation of incremental access, still one of the most controversial fishery management matters, in the hands of the federal minister, where it has been since 1867.

In summary, the Canadian fisheries system has developed from one that did not focus much on management of fishing activities in the first 105 years of Confederation, except for some coastal fisheries and freshwater species. The post-World War II years to the early 1970s were a period of modernization, development and expansion. In the early 1970s, attention turned more to conservation and direct management of fishing activities. From a relatively laissez-faire system has developed a complex of management arrangements that now focus on stock conservation and the social/economic state of those engaged in the harvesting sector. The latter is reflected in the many measures and special policies that now exist to control or reduce fishing capacity and protect the resource. The system for management of the fishery is anachronistic in many ways, particularly the enormous discretionary power that is vested in the minister, with respect to the establishment of quotas, fishery allocations and licences.

Current federal activities in the whole area of fisheries management are much broader than they were a few decades ago. While available data do not indicate a decline in funding levels for DFO in the last four years, neither do they show any real total increase in basic operating expenditures when Grants and Contributions are removed. In that timeframe, the department has received some increased funding for specific purposes but it also has assumed certain new responsibilities, such as Oceans Act administration, without incremental funding. We feel safe in concluding that the effective capacity of the department to conduct its core fisheries management activities has eroded in recent years from this combination of unfunded new initiatives, internal re-allocations and general inflationary pressures. We cannot quantify the absolute extent of it.

The Apparent Objectives of Fishery Management

In this section, we will describe the major trends in the fishery objectives of both the federal and provincial governments since Confederation with Canada. We will conclude with an assessment of the apparent objectives of contemporary fishery policy as they exist in 2002. The policies that apply at any point in history are a product both of policy evolution and of current circumstances forged by market forces, the natural environment and human fishing activity. The historical record of past fishery policies is found in various sources including federal and provincial commissions and task force reports and sometimes in official government documents.

No attempt will be made to inventory the policy objectives of each successive government administration but broad trends will be outlined. It is clear that policy objectives have altered remarkably over the past 52 years, and their evolution reflects a shift from resource abundance to severe resource depletion, as well as from incomplete market development to mature marketing systems. Most frequently, the objectives have not been clearly identified. While there have been many reports recommending policy changes, and many of them quite dramatic revisions, governments have not always endorsed these documents nor stated clearly the actual policy direction they have adopted as a result. Fisheries management embraces objectives that relate to science, conservation and enforcement, fisheries allocation, occupational safety, collective bargaining, regional economic development and community preservation. These objectives are often conflicting, adding to the complexity of fisheries management. Over the last five decades, this complexity has been exacerbated by a serious decline in the groundfish sector that, until recently, had been the dominant component of the fishery in the province of Newfoundland and Labrador.

This discussion of fishery policy objectives will be organized around three time periods. The first is from Union with Canada up to 1974, when the inshore catch of Northern cod reached its historical low point of 35,000 tons. The second time period is from 1974 to 1992, when the Northern cod moratorium was declared. The third period is from 1992 until the present (December 2002). We will discuss the implicit or explicit policy objectives of, first, the provincial government and then the federal government, in each of these three periods.

Provincial Fishery Policy 1949-74

In the post World War II period, the Newfoundland fishery was relatively strong, dominated by the salt fish industry but with a movement toward frozen groundfish production, mostly for the American marketplace. The Commission of Government encouraged the transition from production by household enterprises drying and salting cod to industrial firms producing frozen groundfish products. The Commission had encouraged improved marketing and better quality of all fish products through the Newfoundland Fisheries Board that controlled licenses for the export of fish products. The NORDCO Report of 1981 states "the centralization of onshore processing was a prime objective for fisheries development."[49] The Commission wanted to concentrate new processing facilities in about 15 centres. This was seen as an instrument to influence the dispersed settlement pattern and thereby reduce the cost of providing public services.

After 1949, the newly created provincial government was not disposed to overturn this policy direction. The province continued the policy thrust in favour of private sector production of frozen groundfish to be marketed within North America. Government was prepared to support this direction by lending money to Newfoundland firms and viewed the federal government as a source of financing for this reorganization and revitalization of the fishery. The Walsh Commission report envisaged a greater concentration of the fishery into fewer communities. The improvements in efficiency that came with modernization would create the need for alternative employment for people leaving the fishery. Increased capital investment would be needed from industry and from governments to provide the necessary port and plant facilities, along with the development of larger fishing vessels. The provincial government appeared willing to support this new direction.

However, the Federal Government was not prepared to support such a large-scale public investment in the fishery. Miriam Wright concluded that "Although the Canadian government was becoming more involved in the economy in the postwar years, the 1953 Walsh Report proposed a much greater degree of intervention than Ottawa was prepared to undertake....The Canadian state of the 1950s was not as interventionist as it would become in the 1960s and 1970s."[50] In the absence of the recommended investment program, the inshore fishery stagnated while fishery policy appeared to favour the newly emerging offshore sector, with its vertically integrated structure of deep-sea fleets and modern freezing plants.

Wright also documents the extent of provincial financial involvement with the processing sector, including the offer of provincial loans to Fishery Products to build and operate plants at five communities on the Northeast Coast.[51] Fishery Products was not the only company to receive support. Between 1950 and 1964, the number of frozen-fish plants doubled and the number of fish-plant workers increased from 1,107 to 7,427. By 1957, three firms (Fishery Products Limited, Bonavista Cold Storage, and Gaultois Fisheries Limited) accounted for 60 per cent of Newfoundland's frozen-fish exports, with Fishery Products Limited producing slightly over half of that total."[52]

In addition to the support of large integrated companies in their efforts to build plant and trawler capacity, the Province built a number of plants and leased them to private operators. These plants included those located at La Scie, Rose Blanche and Harbour Breton. The Newfoundland Fisheries Development Authority also built and operated a shipyard at Marystown to service the trawlers owned by the Newfoundland processing companies.[53] This period when the government promoted and assisted the move to freezing plants and offshore trawlers was also a time when other major operators appeared from outside the province, such as Atlantic Sugar Refineries in Marystown, Booth Fisheries in Fortune, B.C. Packers in Hr. Breton, Ross-Steers in St. John's and Birdseye in Hr. Grace. The 1960s also saw the introduction of the Community Stage program under which many future inshore freezing or filleting plants were built under federal winter works programs.

A number of other policy documents were developed subsequent to the Walsh Report. The Report of the South Coast Commission[54] questioned the viability of communities based on inshore fishing and salt-fish production. The Commission recommended that only certain areas be selected for fishing investment. This lent impetus to the policy of resettlement.

The Royal Commission on the Economic State and Prospects of Newfoundland and Labrador of 1967[55] encouraged the offshore fishery and stressed the need to plan for economic decline in inshore communities. It welcomed the trend toward greater centralization and suggested that a select number of communities be chosen for large-scale development. "The policy for declining areas was to reduce the number of people dependent upon the inshore fishery and increase the specialization and productivity of those remaining. Surplus labour would be encouraged to move under group resettlement programmes to the offshore sector, other sectors of the Newfoundland economy or labour-short areas in other parts of Canada."[56]

The Moores administration undertook a review of fisheries policy in 1972-73. A fisheries task force prepared a planning document that recommended that the province establish a greater capability to harvest Northern cod. It argued that the Government of Canada should allocate resources based upon the demonstrated or planned capacity of Canadian fleets to harvest them. The objective was to obtain an increased share of the TACs within the ICNAF area for the Province. The Task Force recommended that a trawler fleet be designed with the capability of harvesting a wide range of groundfish resources, including Northern cod. In addition, it recommended that the inshore longliner fleet be modernized to take new species, with greater mobility to extend the season of operation. The number of inshore fishermen should be reduced.[57]

The primary policy objective during this period was the modernization of the fresh and frozen fish sector. The apparent overall policy objective was to increase harvesting and processing capacity. Resettlement was a means of reducing the number of people in the inshore fishery and to encourage the growth of the offshore sector. The effort to industrialize during the Smallwood administrations also reflected a policy to provide employment outside the fishery.

During this period, the offshore sector grew but the inshore fishery, particularly for Northern cod, went into deep decline with the lowest level of landings on record occurring in 1974.

Federal Policies 1949-1974

While the Federal Government was not prepared to subscribe to the large scale infusion of capital recommended by the Walsh Report, they did promote "industry expansion through a variety of subsidy and assistance programs to help fishermen modernize and upgrade their equipment" (Crowley et al 1993).[58] This was done on an Atlantic-wide basis because Ottawa did not want to be seen to offer support to one province which was not available to others.[59] However, in the view of Raymond Blake, the Federal Government was taking the easy way out, failing to address the problems in the Newfoundland fishery. He claims that, even in the early days after Union with Canada, Ottawa assigned a large weight to social policy objectives. He went on to say that, "Despite its development strategy, Ottawa refused to venture outside normal government services to rehabilitate the industry. Nor was it able to administer the medicine that might have put the fishery on the road to recovery. It lacked the political will to implement the Walsh recommendations, and it allowed political considerations in the Maritime Provinces to limit its actions."[60]

Parsons states that "Canada officially subscribed to MSY in the ICNAF context during the 1950s and 1960s. Domestically, however, it pursued modernization and fleet upgrading. This was intended to improve incomes of fishermen, to provide the groundfish processing industry with year-round fish supplies through expansion of the Canadian offshore fishing effort, and to compete with the foreign fleets. Small and medium-sized firms consolidated into a few large, vertically integrated companies."[61] Federal and provincial governments were encouraging expansion of Canada's offshore, midshore, nearshore fleets, and the development of new fisheries for scallops, shrimp and crab.

The Federal Government was now confronted with a growing problem that would impact massively on the Atlantic groundfish fishery and remains even today. Foreign fleets appeared in the Northwest Atlantic in the early 1950s. "Total catches increased from about 2 million tons to a peak of 4.6 million tons in 1968 and remained at about this level through 1973. Groundfish catches peaked in 1965 at 2.8 million tons and declined steadily from 1968 to 1974."[62] The explosion of fishing effort by distant water fleets in Canadian waters took place in spite of the creation of the International Commission for the Northwest Atlantic Fisheries (ICNAF) in 1951, based upon a Convention signed in 1949. The conservation efforts of ICNAF began in the early 1950s with mesh size controls. "The management objective embodied in the ICNAF Convention was maximum sustained catch, i.e. MSY. But until the early 1970s there was no limit in the amount of fishing or catch."[63]

Canada entered the Olympic race with the distant water fleets but it was an impossible race to win. The inevitable and abhorrent outcome was the serious damage to the sustainability of fish stocks upon which coastal communities had relied for centuries. While federal and provincial cost-shared programs were used to expand harvesting capacity, Canada's share of the groundfish catch in the Northwest Atlantic dropped from 34.5 per cent in 1955 to 20.2 per cent in 1965. Not only did the total Atlantic groundfish catch decline from 2.8 million tones in

1965 to 1.6 million tons in 1974 but also the Canadian groundfish catch fell from 620,000 tons in 1968 to 418,000 tons in 1974. ICNAF introduced catch quotas or total allowable catches (TACs) for two haddock stocks in 1970. The objective of ICNAF was changed to "optimum utilization".[64] Parsons relates that, "By 1974 all of the major groundfish stocks of the ICNAF area were under a system of Total Allowable Catches and national allocations. These initial TACs were established at the MSY or F_{max} level."[65] However, the damage sustained up to this point was enormous. The inshore fishery, lacking the ability to search for fish over a wide area, suffered the greatest damage.

Gene Barrett identified 1968 as the crisis year in fisheries management, a crisis wherein overfishing was so egregious as to bring an end to the "age of innocence". He describes a modernization phase from World War II to the early 1970s "when fishery policy promoted the industrialization and centralization of the fishing industry. This period marked a 30-year honeymoon between the private and public sector when large-scale development projects and capitalist expansion were seen to be synonymous with modernization and progress. However, the crisis in fish stocks from 1968 onward brought an end to this age of innocence."[66] He goes on to say that "After 1974, fisheries policy was influenced by fishery and welfare economic principles, which advocated incorporation of public management and social considerations in the regulation of the resource.[67]

The Harris Report[68] shows that the inshore fishery for the Northern cod stock has yielded 200,000-250,000 tons on a sustainable basis. Blackwood, citing Harris, 1990, NORDCO 1981 and Lear and Parsons 1993[69], states that "the traditional inshore catch of Northern cod had continuously declined from average landings of between 200,000 to 250,000 mt during the early 1900s to 172,000 mt by 1956 and a low of 35,000 mt in 1974. The social and economic impact of this decline was enormous as tens of thousands of people abandoned the fishery as a means of livelihood and many communities were deserted."[70]

This first collapse of the Northern cod stock and other major groundfish stocks elevated the policy objective of conservation and put a damper, for a period, on the impetus toward modernization. In 1964, Canada passed a new *Territorial Sea and Fishing Zone Act* that created a nine-mile fishing zone beyond the three-mile territorial sea and provided enabling legislation for the closure of other areas to fishing with straight baselines. The Act also provided for the use of headland-to-headland baselines. Many foreign vessels continued to fish in Canadian waters as agreements were negotiated on a bilateral basis. While it was intended that such fishing be phased out, Parsons[71] notes that these negotiations were difficult and straight baselines did not become law until 1970.

Throughout the sixties and early seventies Canada witnessed a growing resource crisis in the groundfish sector. In 1974, the crisis deepened and was compounded by weakening prices in the US market. The result was a number of major policy interventions. These included a program of financial assistance to the industry and renewed efforts to establish a 200-mile economic zone. Flowing from this crisis was also the beginning of steps to assign fishing rights in the form of licences to individual fishermen and fishing enterprises. The federal minister was taking steps both internationally and domestically to recognize that fish are a common property resource and some form of ownership was needed to achieve conservation objectives.[72] Up to this point it had been believed a shift from the inshore to the offshore sector would be the solution to the problems of the industry, along with modernization of plants and of the fishing fleet. "Now it was believed that the crux of the problem lay with the labour supply itself; that labour had to be persuaded to leave the industry. Government now saw as its objective the attainment of a "proper mix" of capital and labour in the industry so that maximum returns could be guaranteed to all dependent on it. In other words, the elimination of labour surplus, not the acquisition of up-to-date technology, had become the object of federal policy."[73] This did not mean an end to vessel subsidies because the offshore fishery was still seen as needing encouragement. The Federal government continued its support to the provincial resettlement program to reduce the number of people dependent upon the fishing industry. However, licensing was added to the array of policy instruments along with restricted entry to certain fisheries. This raised fundamental questions about the right to fish and how such rights would be allocated. The full-scale introduction of licensing was not to come until early in the next period, from 1974 to 1992, but clearly, the management objectives of the Federal Government were evolving into the complex input control system in place today. Conservation was clearly rising on the spectrum of management objectives along with economic management to improve the economic viability of the industry.

Provincial Policy Objectives - 1974 to 1992

The Moores administration came to office in 1972 on a campaign that stressed rural development and criticized the resettlement program of the Smallwood administration. The new government resisted the licensing of fishers. They encouraged the growth of processing capacity and funded the building of a new fleet of larger longliners. The province was enticed to look to the opportunities for an expanded fishery arising from the partial withdrawal of the foreign fleets because of the new 200-mile limit.

In November 1978, the province released a white paper on fisheries development that called for expansion of the offshore fleet through joint ventures with foreign enterprises. A primary landing and distribution centre would be established to supply raw material to seasonal inshore plants. The government saw joint ventures as a means to strengthen processing and marketing as well as fleet capacity. Trawlers would fish part of the year for Northern cod that would be frozen for later processing during the down-season. This fish resource was seen as being taken from the foreigners rather than from the inshore fishermen.

The scientific evidence provided by DFO scientists at the time was that in the period from 1979 to 1985 stocks would recover under sound Canadian management to a high level of abundance. The 1973 planning document prepared by provincial officials that formed the analytical base for the 1978 White Paper called for a balance between the inshore and offshore sectors. The entire offshore catch in ICNAF areas 2 and 3 was to be landed and processed in Newfoundland. The inshore fishery would be supported by provincial funding for larger, more mobile trawlers but licensing policy should be introduced to restrict licences to bona fide fishermen.

The federal minister, Romeo LeBlanc, was not receptive to the concept of a new fleet to supply inshore plants or to the expansion of the offshore fleet to include freezer trawlers. He did not favour joint ventures with foreign firms, viewing them as back door arrangements for foreigners to remain within the zone and to continue to apply excessive fishing pressure upon the stocks. Minister LeBlanc did not resist "over the side sales" of fish to foreigners with the same vigour. However, the minister's opposition did not stop Newfoundland from collaborating with Nova Scotia and Prince Edward Island to advance a proposal for a fleet development program. At this same time, Newfoundland and other Provincial governments became concerned over their limited provincial powers with respect to fishery management. At a First Ministers' conference in 1978, Newfoundland first requested a delegation of administrative authority along with provincial participation in setting and allocating quotas. This position was later changed to a plea for concurrent powers with provincial paramountcy. While the federal minister did not accede to these requests, there was general initial support for greater provincial involvement in policy formulation.

It is clear that the quest for greater provincial power occurred because citizens look to their provincial governments to manage the economy and, in a province like Newfoundland, the fishery is a major economic force. It is also clear the policy objective was to derive as much benefit as possible from the rebuilding of groundfish stocks by establishing the maximum allocation for Newfoundland. Increasing the jurisdictional authority of the province in fisheries management was seen as one way to accomplish this objective.

The policy positions that developed around the management of Northern cod were directed toward achieving these maximum benefits to the province. The province sought a share of 85 per cent of the TAC in this growing stock for the inshore fishery. While this specific target was not accepted by the federal Minister there was acceptance that "The first and over-riding priority in allocations is to the inshore fishery."[74] One outcome of a conference on Northern cod management held in August 1979 was that two-thirds of the TAC of Northern cod was set aside as an allowance for the inshore fishery. The position of the province was that to the extent that a "surplus to inshore effort can be clearly seen to exist, it must be reserved to offshore effort landing into Newfoundland ports for distribution to processing plants which now operate on a seasonal basis."[75]

The inshore allowance became a key policy focus for the province, recognizing that inshore fishers along the Northeast Coast of the island and in Labrador had a long history of fishing this stock. While there had been catch failures from time to time, the stock had not been subject to massive fishing pressure until the 1950s when foreign trawlers began harvesting more than the resource could reasonably sustain. In 1980, the inshore allowance was set at 110,000 tons, while the offshore fleet was allocated 45,000 tons out of a Canadian quota of 155,000 tons. However, as the TAC expanded the domestic offshore allocation outpaced the inshore allowance, thereby shifting the balance more in favour of the offshore sector. In 1984, when the Canadian quota was set at 246,000 tons the inshore fixed gear allowance was at 115,000 tons while the offshore allocation was 112,000 tons.[76] Furthermore, the inshore fixed gear sector could not catch its allowance. Inshore catches increased from the trough of 35,000 tons in 1974 to about 96,000 tons in 1980, declined to 80,000 tons in 1981 and peaked at 113,000 tons in 1982. The increases in the TAC went to the Canadian offshore sector, including vessels from the Maritime Provinces. "The result was that the inshore sector, which was promised first priority in allocation and were supposed to get two thirds of the TAC was, by 1986, receiving only 43 per cent of the TAC as an allocation, and due to the low level of the stock and foreign harvest outside 200 miles, was accounting for only 26 per cent of the total catch."[77] The reason for this was that the biomass had been overestimated and the ability of inshore vessels to harvest a declining resource fell far short of the technical capacity of the offshore fleet to home in upon a shrinking biomass. The inshore allowance itself did not protect the stock or those who depended upon it as had been hoped.

In addition to increasing the inshore allowance the province sought to have the allocation principles established by the federal minister used to protect the interests of the Newfoundland fishery. The 1984 Atlantic Groundfish Management Plan identified the allocation principles as being adjacency to the resource, the relative dependency of coastal communities and the various fleet sectors along with economic efficiency and fleet mobility. The province had emphasized the adjacency principle, along with historical dependence, to ensure that Northern cod was harvested principally for the benefit of the Newfoundland industry. In 1993, the "basic principles" of the Atlantic Groundfish Management Plan were changed to "guidelines."[78] This may have signalled a move by the Government of Canada to move away from the earlier allocation principles or to inject a higher measure of ministerial discretion.

The inshore sector faced repeated catch failures during the 1982 to 1988 period, and in 1991, low inshore landings signalled the collapse of cod and then other groundfish stocks. In the winter of 1992, the offshore fleet encountered extremely low catches, and later in the year the Northern cod fishery was closed. The Northern cod moratorium was quickly followed by moratoria for most other major groundfish species.

According to Blackwood, the collapse of the Northern cod stock can be attributed to a number of causes, including foreign overfishing and the consistent overestimation of the size of the stock biomass.[79] He also argues that "the refusal of the Government of Canada to set TACs at the stated management objective of $F_{0.1}$ in the 1989 to 1992 period also increased the share of the offshore sector. During the 1980s it was apparent that the offshore sector received special consideration due to its ability to catch its quota and employ a large number of people while the inshore gear sector fell into a cycle of catch failures, make-work programs and a high dependence on Unemployment Insurance."[80]

Blackwood goes on to argue that the allocation process was flawed and that the intended preferential access to the inshore sector was undermined, as was application of the principles of adjacency and historic dependence. He concludes this was caused not only by foreign overfishing but also by the significant geographic redistribution of Northern cod landings to Nova Scotia and the South Coast of Newfoundland. The latter was caused by annual allocations to the Canadian offshore sector being increased over a series of years. Communities on the Labrador and Northeast coasts of Newfoundland experienced a reduced share of total landings and were no longer the only major participants in the Northern cod fishery. Blackwood supports these observations with data from 1978 and 1988 concerning the regional distribution of cod landings and the top 15 landing ports.[81]

In the period immediately before the moratorium, the provincial government adopted a position of joint management of the Newfoundland fishery. This resulted in a formal proposal for a joint management body that would derive its authority from both levels of government. This proposal was advanced to decentralize decision-making and to harmonize federal and provincial management decisions.

The objectives of fisheries management were radically transformed over the period 1974 to 1992. At the beginning, the anticipated economic potential of extended jurisdiction led the province to invest in plants and vessels to build up capacity to harvest and process a growing resource. Dean points out that "Prior to the collapse of the groundfish sector and, more specifically in the initial year of extended fishery jurisdiction, the fishing industry was generally promoted as an employer of last resort. It is not surprising; therefore, that employment maximization became so enshrined in fisheries policy as to constrain the implementation of those policy measures that would lead to the emergence of a more viable and dynamic fisheries sector. In retrospect, this policy approach was driven largely by income security considerations and limited substitute employment opportunities outside the fishery in regions and communities with a strong fisheries dependence."[82]

It soon became clear that the promise of extended jurisdiction would not be fully realized and that overcapacity had become a serious threat to the viability of the industry. Restricted access to the processing sector began in 1979, followed in 1981 by a freeze on licences for principal species. However, expansion in the number of plants continued during the 1980s. As major groundfish stocks began to decline in the late 1980s, the province's interest shifted to conservation and allocation issues, relating particularly to Northern cod. The conservation issues were driven by the sudden decline in the resource while the allocation issues flowed from the failure of the inshore sector to benefit from the 200-mile limit and the perceived inequity of offshore landings of Northern cod in other non-adjacent provinces.

Federal Policy Objectives 1974-1992

Even before the extension of jurisdiction to 200 miles in 1977, new approaches to manage the fishery outside the existing Canadian zone were being discussed within ICNAF. Improvements in the concept of maximum sustained yield were accepted in some cases, founded primarily upon biological concepts, as compared with the maximum economic yield concept that normally leads to the selection of a lower level of fishing effort and costs. Canada adopted the objective of conservation but also sought special preference for the coastal state. In 1975, Canada achieved a reduction in fishing effort by non-coastal states.[83] In 1976 ICNAF agreed to move toward the more conservative $F_{0.1}$ approach to fisheries management. The advantage is a lower fishing mortality rate with higher average stock biomass, greater stock stability, higher catch per unit of effort and improved economic efficiency.[84]

In the 1974-76 period, a market downturn compounded the resource crisis in the groundfish industry. This triggered a program of federal financial intervention combined with a policy review. From the latter emerged the May 1976 *Policy for Canada's Commercial Fisheries* that looked beyond the extension of jurisdiction that was to take place in 1977. Major shifts in policy were announced. Best use of the fishery, defined as the sum of net social benefits, was to replace maximum sustainable yield. The policy recognized the need for a systemic approach to the management of the fishery, including measures to deal with the "common property" aspects that create excessive costs and dissipation of economic rent through the race to maximize each fisher's share of the catch. It also recognized the social and economic consequences of the instability to which the industry was prone. Entry to the fishery, along with fishing effort, was to be controlled. In fact, excessive catching and processing capacity was to be withdrawn. Fewer people would be employed in harvesting. This was seen to be essential.[85] Access was to be allocated based upon a satisfactory trade-off between economic efficiency and historical dependency of the fleets involved.

The late 1980s and early 1990s were marked by major problems in the management of virtually all major groundfish stocks. This is most effectively shown by reference again primarily to the Northern cod stock. DFO had undertaken to manage Northern cod with a conservative regime with quotas set below the estimated $F_{0.1}$ level. However, with the optimistic stock projections, decisions were taken to allocate a large share of the resource to the Canadian offshore sector, including new users, both adjacent and non-adjacent, and initially, foreign fishing fleets. The Keats Report commissioned by the Newfoundland Inshore Fisheries Association (NIFA) raised concerns over the use of offshore catch rates in the estimation of biomass size and with the consistent overestimation of the stock. Blackwood[86] cites the retrospective analysis by CAFSAC in 1988 that shows what TAC levels should have been established if the biomass had not been overestimated. The deepening failure of the inshore fishery led to the appointment of Task Forces and Panels, headed by eminent persons such as Lee Alverson and Leslie Harris. Even when the revised data were available, there was a reluctance to take the necessary steps to adjust the TAC. Blackwood notes that even when scientists discontinued using offshore catch rates and recommended a TAC of 125,000 tons, the Minister of Fisheries and Oceans set the TAC at 235,000 tons.

There appeared to be sounder conservation grounds for a sharp reduction in quotas once the new $F_{0.1}$ estimates were available. These events leading up to the moratorium on Northern cod indicate a conscious policy decision to favour employment and the economic viability of processing and harvesting enterprises over the interest of conservation. The necessary corrective action was not taken until the resource crisis had reached critical proportions. Looking back over the period, one is drawn to the inevitable conclusion that conservation was not in the forefront of fishery policy. In retrospect, the bright optimism associated with the extension of jurisdiction was foolhardy and led to fishing pressure that could not be sustained.

Provincial Fishery Policy Objectives 1992 - 2002

The most recent period has been dominated by the impact of the crisis in the groundfish industry and the emergence of shellfish as the dominant component of the fishing industry. A higher value product has been substituted for a less valuable groundfish product. The structural changes in the industry have resulted in a reduction in the number of participants even though the landed value remains high. Financial support programs have been substantially eliminated. The Fisheries Loan Board no longer exists but has been replaced by another, more generic, commercial lending program. The province has participated in early retirement programs for fishers and plants.

The present situation is one where the industry's viability rests heavily upon snow crab. Dean[87] cites industry stakeholders who estimate that the crab fishery represents 80 per cent of industry margins, noting that the snow crab dependency is especially pronounced along the East/Northeast Coast and Coastal Labrador.

The moratorium accentuated the high overcapacity in the fish-processing sector and led to a proposal from industry for a proactive program to withdraw plant capacity, through the purchase of processing licences. The province chose not to take this approach but in 1995 did adopt some of the recommendations of the Fishing Industry Renewal Board (FIRB) designed to limit the number of licensed plants by the designation of "core" or strategic plants. This was combined with restrictions on the ability of non-core plants to combine and thereby to achieve core status.

The FIRB had considered the option of a totally deregulated fish processing industry but rejected this approach as undermining the objective of creating a stable, self-sustaining and competitive industry with minimal requirement for public sector support. The Board argued that it was important to establish a regional balance between harvesting and processing capacity and the policy framework it proposed called for an arm's length board to manage this regional balance.

The FIRB also recommended that no new snow crab licences be issued until groundfish stocks had recovered but the provincial government did not accept this recommendation. This new licensing policy did not result in any meaningful capacity reduction. Indeed, the number of crab plants has increased to 42. The recent decision to withhold the issuance of further crab licences appears to indicate some greater commitment to capacity reduction or control.

The emergence of the cooked and peeled shrimp industry on the Northeast Coast triggered a considerable growth in the number of plant licences, from three in 1997 to 12 active plants and four inactive licences in 2002[88]. Government has not to date accepted the recommendation of the Inshore Shrimp Panel that a quasi-judicial board be established to manage capacity in the processing sector.

The Report of the Special Panel on Corporate Concentration discusses the role of "strategic" fish plants in economic development and concludes that "strategic plants" in the inshore sector suffered a loss in the important role they had previously played in rural economies. Blackwood has identified the reallocation of Northern cod from these plants; while Dean refers to the erosion of their role arising from the explosion in the number of inshore plants in the period before the moratorium. The only possible conclusion is that a strong role for strategic processing plants in regional economic development was not one of the objectives of provincial fisheries policy, even though this concept of strategic plants appeared to be accepted in the 1949-74 period as well as during Commission of Government.

Federal Fishery Policy Objectives 1992-2002

In the post-moratorium period, the federal government has directed its attention to the restructuring of the Atlantic groundfish industry and assisting people dislocated by the collapse of this important component of the fishery. The policy objectives have included capacity reduction and social adjustment. The preference has been to achieve adjustment out of the fishery to relieve the pressure, recognizing that the fishery crisis of the 1990s exacerbated a previously existing problem of excess capacity. The Task Force on Incomes and Adjustment in the Atlantic Fishery (the Cashin Task Force) identified overcapacity as a fundamental problem of the groundfish industry. The overcapacity "contributes to overfishing because fishermen have substantial investments in vessels and fishing gear, and thus have a desire to maximize their return in a competitive fishing environment."[89] The Auditor General notes that even if the groundfish industry were to return to levels of a decade ago, the industry could not provide adequate incomes. Even though the number of groundfish licences had been reduced from over

17,000 in 1993 to just over 10,000 "Core" licences in 1997 the Auditor General concluded that excess capacity remained. "If the fishery is to be managed on a sustainable development basis, ecologically and economically, then another means of addressing the social and cultural issues of coastal communities has to be found."[90]

The Department of Fisheries and Oceans has been seeking to improve its understanding of what went wrong in fisheries management. These problems include total catch levels being set above conservation standards largely because of overestimation of stock levels. Commercial fishing data, on which stock assessment were based, in part, were coloured by selective fishing using increasingly effective technology in areas of high fish concentrations. Fishers caught more fish than was allocated. Irresponsible fishing industry practices, such as unrecorded landings, misreported landings, dumping of bycatch and high grading contributed to the collapse.

The Auditor General's report of 1997 concluded that the primary objective should be to conserve the resource, and that the Federal fishery managers ought not to be sidetracked by other competing objectives, such as "providing economic opportunity, facilitating access to reasonable incomes and Canadianization of the fishery."[91] With such greater weight being assigned to conservation "healthy fisheries would then contribute to achieving and maintaining social and economic objectives, including the viability of coastal communities."[92]

The 1997 Report of the Auditor General also provides some useful commentary with respect to the ostensible objectives of fishery policy. These included the following:

> "14.70 Statements of Canadian commercial fishing policy were advanced in 1970 and 1976. In 1970, the main objective of government fisheries policy was to maximize employment in Canada's commercial fishery. The 1976 Policy of Canada's Commercial Fisheries indicated that in the near future fisheries would be regulated in the interest of people. In 1981, the Minister of Fisheries and Oceans published a discussion paper on Canada's Atlantic fisheries policy for the 1980s. This document included a strategic objective "to maintain fishery resources at levels which will generate the maximum continuing economic and social benefits."[93] The current status of these policy documents is unclear.
>
> "14.71 Legislation passed in the 1980s established the objectives of economic viability and maximized employment. The *Atlantic Fisheries Restructuring Act* adopted as a hierarchical set of policy objectives for the Atlantic fisheries:
>
> - That the Atlantic fishing industry be economically viable on an ongoing basis;
> - That employment in the Atlantic fishing industry be maximized subject to the constraint that those employed receive a reasonable income; and
> - That fish on the Atlantic Coast of Canada be harvested and processed by Canadians to the extent that this objective is consistent with the first two objectives and with Canada's international treaty obligations."[94]

While the importance of conservation may have been understood, there was no explicit reference to it in the legislation.

The response from the Department of Fisheries and Oceans conveyed acceptance of the need to establish a statutory commitment to conservation, endorsing the precautionary principle and affirming that "conservation of Canada's fisheries and their management on a sustainable basis are central to the economic viability of harvesters and processors and the well-being of communities dependent on fisheries resources."[95]

While the Auditor General acknowledges that capacity reduction represents an important component of fisheries policy, the 1997 Report also notes that:

> "14.92 Currently, the incentive is for fishers to remain attached to the fishery rather than to leave it. In fact, those involved in the industry may see an advantage to strengthening the attachment where possible, since federal income support or employment insurance benefits remain attractive compared with other social support programs, and few employment alternatives exist. It appears that provincial governments and other organizations may have little reason to encourage people to leave the fishery; in the absence of employment alternatives, the demand on provincial social programs could increase."[96]

Funding had been moved from the adjustment and rationalization component of The Atlantic Groundfish Strategy into income support. The Auditor General observed that this served to encourage people to remain attached to the fishery and dependent upon federal government support.

The basic thrust of the observations of the Auditor General goes to the heart of the problem. The fishery cannot possibly achieve economic viability and ecological sustainability if it is burdened with policy objectives beyond its realistic ability to deliver. Fishery managers cannot find a solution to the unemployment of people who are no longer part of the fishery. The Department of Fisheries and Oceans cannot solve the problem, in a fisheries management context, of continuing to support the number of people and coastal communities that have depended upon the fishery in recent decades.

The Employment Insurance (Unemployment Insurance prior to 1996) program has played a major role in allowing government to maximize employment. It is beyond our mandate to explore the full impact of employment insurance but this program is frequently seen as having unintended consequences, whose overall impact may be quite substantial. These alleged consequences include contributing to overcapacity and removing young people from school prematurely. However, it has to be acknowledged that the program contributes to the economy of the province by injecting new dollars which partly offset the economic weaknesses and industrial seasonality that have maintained unacceptably high rates of unemployment. It has been argued that such injection of new funds holds people in place who would otherwise withdraw and, indeed, that Employment Insurance continues to attract new entrants.

The Employment Insurance program pays out more benefits to participants in the fishery industry, fishers and processing workers alike, than the value of premiums collected. The program injects new money into the industry and the province.

The overcapacity that existed at the time of the moratorium exacerbated the adjustment problem arising from the collapse of the groundfish industry. Exactly how much of this overcapacity can be attributed to Unemployment Insurance is difficult to determine. The result was that landed values and earned incomes in the groundfish sector went into free-fall and many more people had to pull up stakes than would have been the case if the overcapacity had not existed. The 1997 report of the Auditor General of Canada identified Unemployment Insurance as contributing to overcapacity[97]. The report also notes that in 1990 self-employed fishers were receiving $1.60 in Unemployment Insurance benefits for every dollar earned in the fishery, up from 96 cents in 1981.[98]

Various capacity reduction programs were used to retire people, vessels and gear from the fishery, at considerable cost to government and some of the benefits have been erased by the unintended effects of Unemployment and Employment Insurance.

The major change to the EI program made in 1996 was a move away from the concept of insurable weeks to one based on minimum insurable earnings. The threshold to qualify is relatively low ($2,500 for a repeat qualifier and $5,000 for a first time recipient). In recent years the number of fishing benefits recipients has been increasing, after declining from 1990 to 1995, especially during NCARP and TAGS. There were approximately 13,600 fishing benefits recipients in the province in 2000, about the same number as there were in 1990, before the moratorium. This represents roughly 85 per cent of registered professional fish harvesters in that year. The number of fishing insurance claimants in the region and the percentage of registered professional fish harvesters receiving fishing benefits has increased successively since the program was revised in 1996. This was in spite of the significant capacity reduction in the fishing industry over the past decade, as a result of groundfish licence retirement and other industry adjustment programs. Since 1992, groundfish licences have been reduced by over 50 per cent. This probably indicates as much the level of underemployment that existed in the previous groundfish-dominated industry as it does the removal of essentially unproductive or redundant earning capacity since 1992 or the effective replacement of it in the new shellfish fisheries. This appears to be confirmed by the fact that the number of fishing benefits recipients is now back to around the long-term (late 1970s and 1980s) annual level.

It appears to be fairly easy for harvesters to qualify for maximum benefits, especially when compared to their counterparts in fish processing. Because benefits are tied to fishing income levels, the program does not provide protection against catch failure, because low catches and earnings lead to low levels of benefits. Over the years, there have been various attempts to establish a more appropriate fishery income support system, including catch failure insurance but these have been unsuccessful. The primary reasons appear to be the prevailing even greater dis-incentive to work in such programs and the impossibility of self-financing except with prohibitively high premiums.

The overall EI situation is different for plant workers. The number of regular Employment Insurance beneficiaries in fish processing occupations has declined by about 50 per cent since 1990. Approximately 17,600 plant workers in the province received regular benefits in 1990, compared with only 9,600 in 2000. This may be attributable to the existence of a higher threshold than exists for fishers and the significant decrease that has occurred in the number, duration and earnings of processing jobs.

Young people may still find it attractive to leave school at an early age to fish or to work in a fish plant in order to gain access to benefits. The softer eligibility requirement recently put in place for harvesters could lead to further drop-outs from the school system. The lower number of jobs now available in fish processing will hinder this and the now limited (and strictly controlled) numbers of fishing enterprises that can hire additional crewmembers. The research report prepared by Audas and Murrell for AIMS[99] notes that young Atlantic Canadians continue to go into highly seasonal occupations at a rate significantly higher than the national average. This appears to confirm the longstanding concern about the negative impact of Employment Insurance upon the length of stay in school and overall educational levels in fishing regions.

This narrative only touches the surface of the manifold issues that are raised by Employment Insurance. Nor are we in a position to prescribe solutions for consideration of the Commission. What is clear is that a holistic approach is needed involving both the federal government and the province to examine how Employment Insurance can contribute to a successful fishery and complement other income support measures. In establishing a vision for the fishery of the future it is important to ensure that income support programs will complement the objectives of fishery policy, rather than working at cross purposes.

The Employment Insurance program has also had unintended effects on policy makers. It has accommodated the policy objective of maximizing employment without reducing the incomes of industry participants, both processing workers and harvesters. If this program were not available then the maximizing of employment would have created an intolerable level of overall incomes for people in the industry. It also has to be recognized that the program has lulled policy makers into accepting economic policies that allow high rates of unemployment to continue for decades.

It is our recommendation to the Commission that the linkages between income support measures, particularly Employment Insurance, and fishery management be subject to further review to ensure that the success of the fishery is not compromised by the unintended consequences of a well-meaning and firmly established program that injects new funds into the province. This review should examine the unintended consequences of Employment Insurance, including growth in, or even maintenance of, capacity. It should also examine the impact on the education of the young school age people of the province who could still be drawn out of school by the lure of qualifying for benefits. It should recognize the positive contribution that Employment Insurance makes to the economy of the province and that, in its absence, and in the absence of a successful program of economic diversification, the level of incomes in the province would be significantly curtailed.

DFO has undertaken an Atlantic Fisheries Policy Review, which will likely lead to a re-statement of its policy objectives. The Minister has already made policy decisions on one component of this review, the Report of the Independent Panel on Access Criteria. It is reasonable to believe that the overall Review will lead ultimately to the evolution of more sharply focussed policy objectives.

Conclusion

There are some observations that can be made with respect to the effects of fragmented fisheries management and the lack of convergence in fishery policy resulting from the fractured management system. It is clear that there was an attempt to build a rational policy framework using strategic regional centers to modernize the industry. One can speculate that, with strategically placed fish plants, combined with greater discipline in the growth of both harvesting and processing capacity, the industry would not have been plunged into such an abyss by errors and misfortunes in resource management. One can also speculate that more effective joint management or policy integration between both levels of government would have created a more rational, robust and viable industry. It is tempting to believe that a mechanism that achieved effective policy integration and shared policy objectives would have produced a better outcome than the one that lies before us.

The policy objective of maximizing employment did not serve the industry well. It had the result of pushing the resource to the limit and forcing decisions on quotas that were probably in the high-risk range of the advice given by scientists. This policy objective of maximizing employment was made tolerable by virtue of the Employment/Unemployment Insurance programs. This availability of benefits from the program allowed this objective to be sustained over a period of decades and reduced the pressure for meaningful economic development programs.

This paper provides some historical perspective on the objectives of fishery policy. The objectives we have addressed in this exercise are high-level objectives. There have been significant changes in policy from one administration to another, sometimes reflecting public reaction to previous policy. In other cases, policy has been changed because of resource problems, opportunities or market factors.

The current objectives of the fisheries management policy of the Government of Newfoundland and Labrador appear to be as follows:

- To create regional balance between harvesting and processing capacity;
- To maximize employment in the fishing industry;
- To sustain rural communities and regional economies on the basis of incomes and employment from the fishery and to modulate necessary adjustments;
- To resist the notion of strategic regional plants in favour of a multiplicity of plants in many communities;
- To advance the claim of fishers in adjacent communities to be the principal beneficiary of adjacent fish stocks;
- To maximize the share of adjacent resources harvested and processed in the province and thereby, the benefits accruing to the province from the industry;
- To establish stable industrial relations and equitable sharing of the benefits between processors and harvesters from the sale of products from the fishery;
- To achieve a greater voice in the management of the fishery through changes in the province's relationship with the Government of Canada.

The corresponding apparent objectives of fishery policy for the Federal Government appear to be as follows:

- To maximize employment in the industry, subject to the constraint of reasonable earnings;
- To build and maintain an ecologically sustainable resource base;
- To build the scientific capability to minimize the uncertainty attached to scientific estimates along with the management skills to operationalize scientific estimates of risk and uncertainty;

- To allocate fish resources on an equitable basis to various competing user groups;
- To minimize the impact of resource and market changes upon fishing people and communities;
- To maintain Canadian control and to maximize the benefits to Canadians of fish harvesting and processing; and
- To reduce capacity and facilitate adjustment out of the fishing industry.

Alternative Fishery Management Policy Objectives for the Future

In this chapter, we will discuss the issue of alternative policy objectives for the future with a view to establishing a prescriptive model of fisheries management. This model can then serve as a benchmark against which to assess past and present fishery policies. These policy objectives are the highest levels of intentions or aims that governments adopt for the fisheries management system. In this context, we will take the fishery management system to cover both the catching and processing of fisheries resources, recognizing that there are collateral impacts from all such decisions. While marketing activities obviously influence the level of success in processing and harvesting, we will not include that activity, as it is not one where government involvement is any longer expected, desired or anticipated. These policy objectives will be guideposts for the future management measures governments should take in each of those two areas. They will, in effect, set the tone and direction to which all lower level program objectives, strategies and specific policy instruments must conform.

An examination of the context in which fisheries policy objectives must be developed and implemented is illustrative of the difficulties that governments face in coming to grips with the best approaches to managing the fishing industry. A better appreciation of how the sectors of the fishery relate to each other, to the resource and to markets, will help to understand past fisheries policy objectives and what is reasonable and feasible to expect for the future. In many ways, a failure to take into account the interrelated fishery system is the prime reason why the development and implementation of fisheries policy objectives has caused so much grief and frustration over time.

The Inter-related Fishery System

The fishery system consists of the fish resource, the harvesting sector, the processing sector and the fish products marketing sector. The fish resource and the habitat in which it dwells are of paramount importance. The people who work in the industry and who depend upon it are of even greater importance. We saw, in a previous chapter, that concerns about resource conservation are relatively recent phenomena, and that belief by some in the in-exhaustibility of ocean resources has not necessarily fully disappeared even today. However, it is now clear that the first imperative is the necessity to protect and conserve the fish resources and their habitat; without this the long term prosperity and, indeed, survival, of the harvesting and processing sectors will always be in doubt.

The Canadian fisheries, and many others around the world, attest to the tendency of the harvesting sector to over-exploit the resource, to use excessive amounts of labour and capital and to continually seek to circumvent or foil fishery regulations. A largely unstable resource base, recurring industry crises and unacceptably low levels of average incomes, especially in the small boat fleets, even after open entry was eliminated, have characterized this sector. It also invariably features a wide assortment of pervasive group conflicts that range across gear types, vessel size classes or geographical areas (and often combinations of all three). It can also influence the shape of the processing sector by its pattern of fishing activities; while it, in turn, can be affected by competing demands of processors for raw material.

In the early 1990s, these tendencies were exacerbated in Newfoundland by a massive resource collapse and the ensuing transformation of primarily a groundfish industry to one based mostly on shellfish. The level of adjustment required in that "largest layoff in Canadian history" was massive. Such adjustments are often long-term because exit from this industry is not easy for any one or more of the following reasons: difficulty in liquidating fishing assets; costs (both financial and psychological) of retraining or resettling; lack of exposure to, or knowledge of, alternative employment and absence of opportunities to re-locate or re-employ. These factors can leave an excess of labour in the sector for extended periods, often as long as a generation. Today's harvesting sector is comprehensively managed for a mix of conservation, economic efficiency and societal benefits through a wide array of entry and effort controls. However, these have not yet eliminated all problems of overcapitalisation and overcapacity, with the result that the commercial appetite of the catching fleets continues to bear no resemblance to what the resource can sustain.

The processing sector has also shown a consistent tendency to overcapitalization and overcapacity that is remarkably similar to that of the harvesting sector. While some of this may reflect the pace and location of developments in harvesting, a good deal of it appears to occur from efforts to out-compete others for raw material, with results similar to those blamed on the common property nature of primary fishing. This creation of redundant processing capacity results in heightening of the seasonal peaks in plant operations that can be inherent in the nature of harvesting operations. This in turn can lead to weakness in product marketing if processing enterprises are not strong enough to compete effectively with competitors. Governments have often contributed to these tendencies by generous plant construction assistance and subsidy programs and then tried to offset some of the ensuing marketing weakness with financial assistance or directly intervening through centralized, or single-desk, selling arrangements such as NAFEL or the Canadian Saltfish Corporation. In Newfoundland, the result has been the imposition of limitations on entry to, and controls on, types of processing operations very reminiscent of those used in the primary sector. In the past, fish processing was labour intensive, but now has become much less so with the mechanization in today's predominantly shellfish-based activities. With the greatly reduced supply of groundfish, only partially offset by expanded shellfish landings, processing employment has become even more seasonal and produces a lower level of annual earnings. Finally, the raw material requirements of the processing sector seldom equate to proper allowable catch levels.

Moreover, the level and composition of catch implied by market demand rarely will equate to the proper level of exploitation for a fish stock or any combination of them. MacKenzie terms such a co-incidence as " wholly fortuitous".[100] Markets cannot be relied on to dictate the proper level of resource exploitation. On the other hand, it is rational to manage the catch of a given species to the level required by the market when to do otherwise would produce an undesirable surplus of inventory. Resource exploitation also can be managed to eliminate or diminish unwanted seasonal peaks in production or to improve product quality by reducing the amount of small or poor quality fish. The dictum here is that, while resource management can take account of certain signals from the markets in terms of timing of quantities and grades of products, the marketplace itself cannot be permitted to dictate allowable catch levels as these will usually be above the capacity of the fish resource over the long term.

The over-investments of the past remain in the harvesting and processing sectors of the Newfoundland fishing industry and recently have been repeated to take advantage of the new resource base for shellfish. The groundfish collapse and lack of subsequent recovery has reduced the offshore trawler fleet to a small fraction of its former size, eliminated many full-time processing jobs and left a small boat fleet in several parts of the province with a small income base. Some of these outcomes may never be undone; the degree to which that is still not accepted will make it even more difficult to devise future policy objectives that many can regard as reasonable and equitable.

The present worldwide fishery situation is essentially one where the limits of raw material supply (the resource) have been reached (and in the Newfoundland case have declined in overall physical terms since 1992). Because more than adequate harvesting and processing capacity exists, the sustainable level of exploitable fish resources is now clearly the pre-eminent factor in the setting of policy objectives and the development of policy instruments for management of the harvesting and processing sectors.

The Policy Path to the Present

Fishing societies and their governments have long moved away from the concept of MSY as a useful objective of fishery management because of the resource instability it generates and the lack of weight it gives to other economically or socially desirable outcomes. Likewise, the pure economic efficiency objective of maximizing total net returns has never been fully accepted as an aim of fisheries management. As many, including Parsons, point out "… governments have to consider such things as income distribution and employment as well as conservation and economic efficiency."[101] We have seen earlier in Chapter 3 that Canada, by the latter half of the 1970s, had moved along the path of alternative optima to adopt a concept of optimum sustainable yield (*OSY)* as the preferable approach to fisheries management. This is an amalgamation of *MSY* (the maximum physical yield) and *MEY* (the greatest excess of revenue over costs of fishing) into a concept of maximizing the overall benefits to society that can be derived from the fisheries. In the 1976 Policy for Canada's Commercial Fisheries, this was termed "best use".

Indeed, the Kirby Task Force statement of fisheries management policy objectives advocated the "best use" approaches of reasonable economic viability, employment maximization subject to reasonable incomes and Canadianization. Later re-statements of government's aims in dealing with the downturn in groundfish, the eventual collapse and the ensuing adjustment efforts continued to combine achievement of economic efficiency, resource conservation and minimum social disruption, without any explicit ranking being given to each.[102] These evolutions all show a set of policy objectives that espoused more than pure economic efficiency; and that the emphasis changed depending on the Minister of the day or the latest crises. Indeed, most of the clearer statements of Canadian fisheries policies have followed some particular problem in the industry. The 1976 Policy for Canada's Commercial Fisheries was part of the response to the 1973-74 groundfish crisis, the Kirby Task Force recommendations were the result of the 1980-82 problems and the later statements by Ministers Siddon, Valcourt and Crosbie[103] came out of the impending, and then the actual, groundfish collapse of 1992 and beyond. Similarly, the implicit refinements of policy objectives since the post-moratoria adjustments have retained a mix of conservation, economic efficiency and minimum social disruption with an added sustainability precept. The current Atlantic Fisheries Policy Review is the first substantial review of explicit fisheries policies since the early 1980s. Access and allocations are important components of this review, with access criteria being the subject of a separate enquiry by an independent panel headed by former federal Deputy Minister Arthur Kroeger.

The Theoretical Basis of Policy Optima

Surprisingly little of the current economics literature on fisheries management directly addresses the range of options for policy objectives. Most current economics writings range between two schools of thought. One proposes economic efficiency as the sole aim of fisheries management while the other advocates a more balanced approach where there is provision for conservation, resource allocation, efficiency and social values. The first adheres to the Neo-classical economics view that the ultimate economic objective of any endeavour should be the achievement of the greatest difference between the value of an output and the cost of the inputs used to produce it (i.e., to maximize resource rents). Because society derives the greatest benefit from any economic activity in this way no other outcome is deemed acceptable. To do so is to make a value judgement that is not permitted under this school of economic thought. However, Copes points out that choosing maximum net returns, as the sole objective is itself a major value judgement.[104]

Currently, some economic theorists argue that the completely unfettered use of individual transferable quotas (ITQs) will achieve this ultimate objective of net revenue (and resource rent) maximization and solve all the ills of commercial fisheries in the process. Others argue this tool is not fully proven, especially the claims of self-interest driven conservation. These opponents parade a long list of observed and conceptualised adverse results they claim make this a far less satisfactory instrument that is often postulated.[105]

Still others raise several technical problems with the notion of rent maximization itself. For example, it is possible, under certain discount rates assumptions, for the objective of rent maximization to lead to a quick fishing-out of a stock[106], which would not be a socially desirable outcome reflecting a realistic social rate of discount which properly weighs the interests of future generations. A more practical problem is the dynamic data requirements for determining whether maximum net rent is really being achieved. These include up to 30 years of future annual operating costs and selling prices, annual catch levels and interest rates, most of which are not ever likely to be available for analysis. A deeper perspective is that all people do not, and indeed cannot, always make the types of rational decisions required by the Neo-classical school of economics. Davidse points out that people do not always act this way because it is impossible for them to do so in a pure sense and there is not an unlimited capacity to make use of all the information that is so required[107]. In his view, people usually do the best they can and applying the assumption of rational behaviour to the fishing industry is very hazardous. He cites the cases of Dutch fishing families remaining in the fishery when selling their licences would bring a greater return because "pure economic considerations are embedded in or subordinated to social-psychological ones".[108]

The major source of disaffection with rent maximization is that it ignores other societally desirable outcomes that are valued in the real world. These include a long list of social preferences that can justifiably be claimed as legitimate alternatives to the attaining of pure economic efficiency.[109] Such aspirations as small community life styles, independence of the owner-operator as well as higher levels of employment and more equitable distribution of income are just some of the alternative values to rent maximization. For example, dissipating some or all of the rent in favour of higher total income and/or employment levels can be especially justified when the economy is below full employment. Then a higher utilisation of what would otherwise be surplus labour is a benefit rather than a cost to society. Moreover, since full employment is a still un-achieved economic state, this outcome is still quite appropriate for fishing regions or other non-urban areas. Two obvious caveats are that poverty-level incomes are not an acceptable price to pay for higher levels of employment or total income, nor are special ongoing operating subsidies to sustain those enterprises whose viability has been compromised. This approach can accommodate such desires as a higher number of different-sized enterprises operating from a larger number of communities so long as the returns to the labour and capital involved are reasonable. It also acknowledges that the social and cultural values of fishing communities are not inferior (and indeed could be considered superior in many respects) to those espoused by the more earnest of free market theorists.

Fishery management arrangements to achieve many of these "sub-optimal" objectives are best designed in a multi-disciplinary approach that incorporates the views of other social scientists.[110] The input of these disciplines is especially useful in designing management measures to give effect to the final policy objectives for the fishery management system. Cadigan has produced an excellent review article that catalogues some of the types of inputs available from social sciences other than economics.[111] These so-called "alternative" writings espouse, amongst others things, the wider use of Traditional or Local Ecological Knowledge and community-based approaches in management of fisheries. These are useful in interpreting trends in fisheries data or in designing management measures that are more suitable to controlling some types of adverse behaviour of licence holders.

Another approach to fisheries management is suggested by using a broad set of social, economic and biological indicators of progress. Charles *et al*[112] have proposed such indicators to measure the health of the fisheries and the marine environment. Such indicators would measure the state of fish stocks, the contribution of the fishery, the quality of the marine environment, the well-being of the communities that depend upon the marine environment and the effectiveness of the institutions that manage both the fishery and the oceans. The genuine progress indicators described by Charles are intended to ensure that resources are used in a sustainable manner to benefit citizens at large, stakeholders, communities and the natural environment. This new approach could offer the potential for better management of the fishery by embracing a wider range of performance measures to evaluate and possibly amend management objectives.

We have been struck, in particular, by the situation of women in today's fishing industry[113] and their aspirations. Slightly over 20 per cent of the individuals reporting fishing income are now female. More than half the total processing workers are women, although the percentage is lower in unionized plants. In both cases, the average income for women is lower than for men, the same as in the case of fishing incomes. Most of the women harvesters are in the Apprentice category under Professionalization because they are latecomers to that occupation. They find it more difficult to acquire the requisite training courses to advance through the other levels. Women also fared poorly from adjustment programs where support levels are determined by historical attachment. Such attachment is often poorly documented because their work patterns have differed from those of men. Women are generally more concerned about social and community values than their spouses or partners. They also are more interested in the education of offspring and their prospects for the future. All of these factors give women a different perspective on what the objectives of fisheries management should be compared with males. They would generally put more weight on the social aspects or goals of fisheries activities but not necessarily to the exclusion of other objectives such as a decent level of earnings. These are the outcomes that are most often dismissed by the advocates of economic efficiency and the use of free market forces.

The Alternatives For Future Fishery Policy Objectives

In his 1984 treatise on the economics of fisheries management, MacKenzie[114] asserted that governments become involved with fisheries management because of:

1. The overcapacity that comes from the excessive inputs of labour and capital resources directed at the fishery, arising from the common property nature of the resource.
2. The untenable pressure this brings to bear on the fishery resources.
3. The resultant recurring crises in the industry and the general impoverishment of participants.

These reasons are probably even more valid today because of where these factors have taken the industry. The situation in, and the interconnections between, all sectors of the industry dictate a balanced approach to policy objectives. Copes has pointed out the pitfalls of uni-dimensional policy objectives that give all weight to either conservation, economic efficiency or social values.[115] Any one of these single-focus approaches is bound to be less than successful and certainly will not produce acceptable overall results. The preferred alternative is one where there are multiple policy objectives but these are ranked in importance.

More precisely, the highest level of policy objectives for fisheries management can be found in one of the following scenarios:

1. Maximization of net returns including the resource rent (which could be appropriated by the state as a return to the public from the resource), along with intra-marginal resource rents and consumer surplus.
2. Maximization of the total enterprise or individual incomes from fishing.
3. Maximization of the number of individuals employed in the industry.
4. Some combination or melding of the above into what is deemed a more appropriate mix of benefits to society as a whole.

The real keys to success of fisheries policies objectives are the strategies and programs that are adopted to achieve them. There is not time or space here to delve into this detailed and complex area of fisheries planning but a useful reminder is that policies often are only as good as the efforts made to implement them. Indeed, the core fishery management functions of setting the level of catch, allocating it and granting access to harvesting and processing are the main ways in which the high level policy objectives just discussed are achieved. The policies applied to each of these activity areas now have some 30 years of accumulated history and are the subjects of many and varied treatments in the overall fisheries literature. These writings include dissertations on such diverse topics as options for conducting of fisheries science, the most suitable basis for, and the method of, decision-making and control, the proper policy objectives (from many perspectives) for fishery management and the best tools or management systems for achieving preferred outcomes.

With all that in mind, the following seem to be the most appropriate fisheries policy objectives for the future and should achieve the most suitable balance of resource conservation and protection, economic viability and community and socially desired values. Therefore, the objectives recommended to the Royal Commission are as follows, ranked in descending order:

1. Resource conservation must be the dominant objective, including the restoration of biodiversity and fishery habitat. Management should be highly precautionary; with TAC levels set at the lower end of the range advised by scientists and including a buffer to allow additional assurance against overexploitation. Ecological sustainability cannot be built upon the ecosystem that currently exists, with its degraded biodiversity and a precarious dependence upon historically exceptional levels of shellfish abundance. Concrete objectives for stock rebuilding need to be established for all major demersal, pelagic, estuarial and shellfish stocks. These objectives should include target levels of fishable biomass for stocks such as Northern cod (i.e., 2J3KL), cod on the southern Grand Banks (3NO), cod on the St. Pierre Bank (3Ps), cod in the Northern Gulf (4RS3Pn), American plaice and yellowtail, redfish, turbot and capelin. It is not sufficient to establish annual management plans for major species. There should be medium and long-term management plans aiming toward specific levels of stock restoration. One approach for consideration by the Royal Commission is to rebuild the species diversity and abundance that existed at the time of Union with Canada or else the levels that existed prior to massive overfishing.
2. The rights of aboriginal people must be respected in all allocation decisions.

3. Fishery resources must be managed and allocated so that those closest to them derive the maximum benefits. Allocation decisions must recognize the resource-use aspirations of adjacent coastal communities.
4. The industry must generate a competitive return including a premium for the high level of risk involved in fishing. Harvesting and processing enterprises should be allowed sufficient returns to make them viable, allowing a return to labour and capital comparable with returns in other industries where risk is similar.
5. Within the preceding objectives, the level of employment should be optimized, not maximized. This means the aim should not be to maximize employment, nor to achieve the level of employment that would result from maximizing the economic rent. However, employment levels should allow enterprises to be globally competitive and should not impair the viability of harvesting and processing enterprises. When regulatory decisions are taken to add capacity and employment, governments should attempt to measure the impact of such decisions on the viability of existing enterprises. The economic data to allow such measurement should be compiled by government and such data should be readily accessible from harvesting and processing enterprises, on a confidential basis, as information necessary to facilitate the management of a public resource. The federal government has used this type of approach from time to time when evaluating the wisdom of issuing a new licence to prosecute the Northern shrimp resource.

One of the fundamental questions is the extent to which social, political and economic objectives can be legitimate components of fishery management policy. History shows quite clearly that the fishery has been almost continuously used to achieve social and political objectives. Such cases include policy decisions whereby fish plants were placed in literally hundreds of communities, in preference either to a policy of *laissez-faire* or, alternatively, the approach of establishing strategic plants on a regional basis. Where these over-expansionary actions compromise economic efficiency to the point of undermining enterprise viability, either for processing plants or for the harvesting sector, they should be rejected as being incompatible with sound fisheries management.

The objectives of fisheries management should be explicitly stated and consistently applied by resource managers. The existence of multiple objectives is, in and of itself, not problematic. What is needed is a clear ranking of the objectives and some sense of what the trade-off is among them. To use an analogy at the macroeconomic level, fiscal and monetary policy makers strive to achieve a balance among the national unemployment rate, the rate of inflation, the rate of productivity growth and the level of per capita output and incomes. Some measure of inflation is tolerable to achieve a reduction in unemployment but if inflation is rampant then higher employment levels may have to be sacrificed.

The same kind of trade-offs must be made in fisheries management, where the licensing of excess capacity for social purposes can detract from long-term economic viability. The overriding objectives of fishery policy must be conservation and ecological sustainability, combined with enterprise viability, producing reasonable levels of income comparable with other industries. Fishery management decisions impact on a host of economic and social factors, such as community viability, regional development, gender equity in employment and personal health, just to name a few. The dictates of sound public policy demand that these impacts be factored into management decisions. These decisions establish the regulatory framework within which the industry must operate. That regulatory framework comprises rules governing how fish are harvested and processed but also how people are treated and respected. These rules include, for example, occupational health and safety and industrial relations. If these regulatory interventions impose an inordinate cost and are out of line with similar interventions in other industries then enterprise viability can be jeopardized. When this occurs the overall management regime has to be examined and rationalized. By the same token, if the industry performs in a fashion inimical to the health of people who work in it then there is a compelling public policy imperative to take corrective management action. In essence, we believe that the complete list of fishery management policy objectives can be as varied as society wishes, subject to the overriding requirements of conservation and sustainability and reasonable economic efficiency.

Some may view these requirements are incompatible or requiring a high degree of definition in terms of trade-offs or the actual application of these in real life. These constraints are somewhat counter-productive: in general terms conservation and sustainability are a limiter on economic efficiency, while both are even more limiting on the normal human or political aspirations to maximise physical output or employment. The precise determination of conservation or economic efficiency may not be possible at a given point in time but they must be adopted as the guiding lights of fisheries policy objectives in the future. The decision as to the weights to be assigned to conservation, economic efficiency and social factors is the prerogative of government. Any views we might express must be understood to reflect our personal values. However, conservation is both an objective and an overriding principle. We would not see conservation compromised in any way to promote economic or social objectives. Having staked out this position we believe that the fishery can make its greatest contribution if government intervention is kept to the minimum that is required to mitigate the social impact of necessary economic adjustments. Only in this way can governments expect the fishing industry to make the most suitable contribution to society.

The Role of Individual Transferable Quotas (ITQs)

Some comments on the role ITQs could play in achieving these objectives are warranted because this has been demonstrated to be an extremely powerful instrument of fisheries management. It has to be recognized that this is an instrument of fisheries policy and not an objective. It is the latest method advocated to control the tendencies of licence holders to employ excessive amounts of capital and labour in their operations. It is focused on control of output as opposed to input as was the focus with limited entry. This instrument also proposes the creation of rights in shares of fish quotas that can then be bought and sold on the open market, thus creating a mechanism under which the less efficient operators are removed from the industry and those remaining are able to maximise their returns. This removes governments from deciding who stays and who remains and allows market forces to determine the final size and shape of the fishing industry.

This powerful characteristic of ITQs is the reason why there are such ardent supporters and opponents of this approach. In a fully transferable IQ system or regime, economic efficiency is the final determinant of the level and composition of participants. It is when such systems are allowed to function with no control or limitation on the acquisition of quota shares that the results become unacceptable. The most evident of these problematic outcomes is concentration of access to the fishery and foreign or absentee ownership of the quota shares. Examples of both are available from fisheries when fully transferable IQs have been in place for some time, including Australia, New Zealand and Iceland.

Leal[116] is one of the proponents of the ITQ approach to fishery management. It is his view that government regulation has failed, having been unsuccessful in preventing overexploitation but greatly increasing costs. He cites spectacular failures of regulation including the collapse of the cod fishery in Atlantic Canada. Government intervention can be most effective, in his view, by creating private property rights and transforming the commons into transferable property. Without such rights the common property nature of the fishery prevents fishers from saving fish for the future. If they practice conservation and leave fish to reproduce for the future they take the risk that someone else will harvest the fish. By taking the fish now, each fisher captures all the benefits while absorbing only a small fraction of the cost of stock depletion because the cost is split among all fishers. This creates an economic incentive for too much fish to be taken and for too many fishers to enter the fishery.

Leal cites a wide range of examples to support his proposition that private property rights represent "best practice" in fishery management. Each fisher can take his share of the total allowable catch without concern that another fisher will pre-empt his access. This allows a more orderly fishery and one which will maximize the value of the catch by levelling out the effort and allowing fishers to harvest at a time and location where value is maximized. Transferability allows quotas to be taken by the most efficient fishers. Leal identifies four principal advantages. First, he cites examples where the market value of the catch is improved, for example, because of the ability to sell more product into the fresh fish market as a result of the levelling-out effect of ITQs and, in another case, because the longer season and slower pace of fishing enabled fishers to direct for larger, more valuable fish (tuna). Second, is the reduction in overcapacity along with improved vessel productivity as more efficient fishers buy out the less efficient. The fishery can be downsized through ITQs without the taxpayer-funded buyout of surplus vessels that has taken place in other non-ITQ fisheries which have collapsed. Third, safety has improved as the incentive to fish in all kinds of weather has been removed. Fourth, Leal argues that conservation is improved, partly because ITQs can be more effective than traditional regulation in achieving a desired overall harvest for the season. In some fisheries, ITQs have the effect of preventing the harvest of small, immature fish because of the greater ability to fish selectively.

Leal cites the example of the Atlantic sea scallop fishery off Nova Scotia, where the Canadian government introduced enterprise allocations in 1986 as one where the result was a strong partnership in favour of greater conservation. Leal goes on to argue, "the closer ITQs are to full property rights the stronger the incentive for fishers to conserve the resource."[117]

Leal acknowledges that there are associated disadvantages, including the discard of by-catches and the high-grading of small fish. He does not see these problems as being insuperable and proposes a number of solutions. For larger vessels one of the solutions is at-sea monitoring by observers.

There are examples where quota allocations are achieved among fishers on a cooperative basis, without being imposed by government. Leal argues that these private harvesting agreements can be quite effective in ending the race for fish and eliminating overcapacity. Governments can play a role in facilitating these arrangements by identifying discrete sectors with common characteristics, such as the use of a particular gear type, and setting aside a share of the total allowable catch for that sector. This allows fishers or their representatives, such as a union, to allocate harvest shares among themselves as well as carrying out certain monitoring and enforcement functions. This is not unlike the way the inshore shrimp industry is managed on the East Coast of the province. In this example the FFAW/CAW performs a management function in determining fleet shares and landings caps. Quotas are not transferred from vessel to vessel but there are in-season reallocations among fleets within the sector, based upon size. While the management of this inshore shrimp fleet sector is far removed from an ITQ system, there are discussions around the option of combining quotas within the fleet and within local areas that could permit some movement toward capacity reduction.

Leal, along with most proponents of ITQs, argue that they foster incentives for fishers to improve the fishery and are most effective when they are established as clear property rights, rather than rights of access only. Such clear property rights could be sold, pledged as loan security and transferred from one generation to another.

The most common means to establish the initial ITQs is on the basis of catch history. An alternative, advocated by many, is the use of auctions which have the potential to generate revenue to the government up front and avoid the issue of windfall gains associated with the "free" disposition of a public resource. An auction would allocate ITQs to those who value them the highest, as indicated by their bids. Such auctions are used in the allocation of government-controlled resources such as airport landing rights and broadcast frequencies in the United States and sale of rights to explore for hydrocarbon resources in Canada. For mature and fully subscribed fisheries, such auctions are not practical options. However, a secondary market in ITQs has the potential to simulate the advantages of an auction market. Indeed, such a secondary market exists in this province today but transactions involve individual species licences or the complete fishing enterprise. If either the individual species licence or the enterprise is entitled to individual shares of a specified species, these entitlements are transferred to the new holder. While these individual shares are not yet considered permanent (and generally cannot be combined) such licence transfers/re-issuances appear to be undertaken on the assumption that they are long-term entitlements.

Apostle *et al*[118] provide an instructive and relevant case study of ITQs, involving surf clam and ocean quahog fisheries in the U.S. mid-Atlantic and the mobile groundfish fleet in the Scotia-Fundy region. It describes the evolution of ITQs, which were implemented in 1990 and 1991. The U.S. fishery was a case where the decision-makers were able to work with a relatively "pure" economic model of ITQs, without caps on ownership to prevent concentration and with virtually no limits on transferability. This fishery operated over a wide geographical area without impacting heavily on any one community. In the Scotia-Fundy case, issues of equity and the impact on communities were very important. The outcome of the Scotia-Fundy case was also largely driven by the vulnerability of groundfish stocks and by the resource declines which quickly led to moratoria beginning in 1992. In fact it is hard to separate the effects of declining resource from those arising from the introduction of ITQs.

In both the Canadian and U.S. cases, the objectives of capacity reduction and fleet rationalization were achieved. The level of employment was reduced and in Scotia-Fundy, crewmen were left with a reduced share. This is attributed to the weakened bargaining position of crew members associated with reduced employment opportunities, along with the fact that the cost of purchasing or leasing ITQs has been taken from the crew share. Notwithstanding the cap on the share which individual enterprises could take in Scotia-Fundy, there was still a significant amount of concentration which occurred subsequent to the introduction of ITQs. With respect to conservation there appeared to be a shift toward improved stewardship but this might have occurred in Scotia-Fundy because of the fragile state of the resource. In both cases there was no auction of rights and quotas were based on historical shares. There was no rental enacted to extract economic rent by government. There was a shift in landings from one region to another and in Scotia-Fundy the community and regional consequences were substantial, notwithstanding the requirement that ITQ holders must be *bona fide* fish harvesters and that no person or enterprise could hold more than two per cent of the ITQ for a species in a specific management area. In the surf clam and ocean quahog fisheries there was no such cap and the system began with full and unrestricted transferability. In the Scotia-Fundy inshore mobile-gear groundfish fleet the system started with IQs, not ITQs. The reduction in overcapacity was associated with considerable concentration in holdings as well as a reduction in the number of active ports and buyers. The Scotia-Fundy case is an example of the trade-off between economic efficiency and equity where some communities gained at the expense of others. Whether this can be attributed to the ITQ system or to a declining resource is not clear.

The conclusions of Apostle *et al* on monitoring and compliance are somewhat reassuring. The data cited show that the number and severity of violations have been reduced. While the evidence is not irrefutable it is reasonable to conclude, as the authors have done, that compliance in Scotia-Fundy has improved under the new regime.

Apostle *et al* observe that "the level and types of "community" have been diminished by the introduction of ITQs. It is also possible that this particular path, as hard as it may seem, is part of a reconstruction of community for the next century."[119] Their study emphasizes the importance of consultation and industry participation in setting up the system. In Scotia-Fundy the implications of ITQs for coastal fishery-dependent communities played a bigger role than they did in the U.S. surf clam and ocean quahog fisheries, which were more geographically dispersed and where the community impact was much less critical. Even in the latter fishery the concern about monopoly power and corporate control led to a 10-year delay in the decision to go ahead with ITQs. In Newfoundland and Labrador, as in the case of Scotia-Fundy, these concerns would be even greater as a result of the potential loss of supply to local fish plants if ITQs were transferred to owners in other ports. Similar concerns on the part of communities in Alaska relating to halibut and sablefish in the North Pacific contributed to the current moratorium on ITQs in U.S. waters.

The study by Apostle *et al* looked at the impact of ITQs on southwestern Nova Scotia and found that the ITQs which were initially awarded to all enterprises were quickly concentrated even before they became permanently transferable. Vertical integration increased as plant owners gained control through arrangements with fish harvesters, who continued to be the nominal owners under fleet separation policy. On the positive side, plant owners were able to keep operating even though the total allowable catch was declining.

Even with these drawbacks (and others) to wider acceptance of this tool, we feel there is a role for its use in achieving the objectives outlined above. A properly designed ITQ regime can allow the fishery to reach more or less the desired level of incomes and employment while removing governments as the final selectors of participants. A few simple rules on the degree of accumulation of quota shares and eligibility to acquire them can remove some of the concern about concentration and control as well as that of absentee ownership. In the first case, a rule regarding the maximum allowable share of quota holdings would mitigate undue concentration. In the second case, specified eligibility criteria, similar to those currently in use in fishery licensing, would confine the ownership of quota shares to those who are willing to enter the industry on these bases and would prevent non-resident ownership.

This is the type of approach to the use of ITQs that we feel is appropriate for the future fishing industry of Newfoundland and Labrador. This controlled transferability of quota shares would allow the industry to become more efficient than it is now but still provide for the broader range of participation of individuals and communities envisaged in the future policy objectives we have laid out. This tool will need be combined with other management measures that will still be needed to attain resource conservation (TACs, fishing seasons, gear regulations, etc...) and to allocate access in some fisheries where IQs will probably not be applicable or needed, such as the lobster fishery[120].

All of Newfoundland's over-65 ft. fleets have effectively been rationalised by the groundfish EA program and the individual share-based licensing in Northern shrimp. There are a number of "inshore" (under-65 ft.) fisheries in this province that now utilise some form of individual quota shares to allocate access amongst licence holders. Before the collapse of Northern Gulf cod, the under-65 ft. mobile gear fleet in 4R had adopted an ITQ program for their cod allocations that included an accumulation limit on acquisition of individual shares. The current individual share arrangements in 3Ps cod, 4R shrimp and all crab fisheries plus the landings cap measures in Northern shrimp are all stepping stones to some form of transferable quota shares regime. In fact, the Temporary Seasonal Crab Permits for under 35 ft Core operators were recently converted to licences when these fishermen voted overwhelmingly to accept permanent combining of such enterprises.

The likely long-term outcome is that as the benefits of permanent IQs become more obvious they will be adopted in more fisheries[121] and transferability/combining of them will become more acceptable and will be adopted with limits on the amounts one enterprise can accumulate.[122] As this happens concentration of enterprises will occur (that is an avoidable consequence of improving efficiency) and operators will increase the size of vessels they now can afford to use as their quota holdings increase. This could allow the removal of the 65 ft. vessel replacement barrier for those who acquire sufficient individual shares to justify operating a vessel in the 65-100 ft. category. Other operators would move up to larger vessels in the 35-65 ft. group, while a similar move would occur in the under-35 ft. class. Some in the latter category could move into the 35-65 ft. fleet if their accumulation of individual shares justifies that. Those who do not acquire additional shares would remain much the same as now. There would be eventually fewer enterprises operating a range of vessels that are larger in size on average than now. This would result in more efficient fleets consisting of fewer enterprises operating from fewer locations. This allowance for private sector decision-making in the controlled accumulation of individual shares is the most effective way of achieving the policy objectives we have stated in this chapter. The role of government would be reduced to assisting licence holders establish the original sharing formula and setting the level of ITQ accumulation that will produce the preferred size of the more efficient harvesting sector. The latter limit would have to be monitored and adjusted over time if necessary. We feel this approach would achieve the proper balance between the rent maximising results of freely transferable IQs and the other objectives we have proposed for the industry of the future.

There is no really good reason why this approach should not also be applied to the processing sector. Many of the same irrational investment and operating decisions observed in the harvesting sector are also found here . "Common property/open access" factors appear to have similar influences here as they do in harvesting. In this case an Individual Shares approach would be based on some concept of transferable or tradeable "production/output quotas" or "raw material/input shares" that are related to the overall available catch quotas. As in the harvesting sector, such production quotas would remove governments from having to decide who remains in the industry but could allow market forces to determine the eventual participants, and within limits, the size of their operations. Governments could determine the approximate scale of the processing sector through rules on combining of production quota/raw material shares. This would eliminate the need for governments to decide on the size, type and location of each and every processing operation, as in the current model. The issuance of some form of production quota or raw material share could relieve governments of many of the almost impossible decisions the current approach requires. As with the harvesting sector, the introduction of such production quotas should be combined with parameters to control against undue concentration of ownership.

We recommend that governments adopt the controlled use of Transferable Individual Shares in shaping the size and structure of both the harvesting and processing sectors in the future fishery in a manner that allows the achievement of the objectives we have proposed in this chapter. There should be a high level of consultation and participation by all stakeholders to enable further evolution in the current system of individual quota holdings. We recommend that the next step on the harvesting side should be the enhanced ability to combine enterprises, along with greater flexibility with respect to vessel replacement.

Strengths and Weaknesses of the Current Management Regime and Division of Powers

This chapter will examine the strengths and weaknesses of the current fisheries management system and division of powers that has been described earlier. We will assess these in the context of the management objectives that flow from our examination of the economic and other resource management literature as well as from the perspective of the province of Newfoundland and Labrador.

Policy Integration

There must be an integration of policy objectives between the federal and provincial governments to achieve these objectives, as well as broad public support for a vision that places stock rebuilding as a high level societal goal. Because of divided jurisdiction, there must be an agreement on objectives between the two levels of government if fisheries management is to be successful. Otherwise, the province will attempt to achieve one set of objectives in its management of the processing sector while the federal government will move in another direction for the harvesting sector. These sectors are part of an integrated system and need to be managed in concert. The means of achieving policy coordination are central to this report. While the federal government has the preponderance of management authority for the fishery, the powers of the province to regulate its processing sector are not inconsiderable. These include regulation of entry and level of participation in processing, quality control, and the level of processing and value added to be undertaken within the province prior to export. The province also exercises controls over the extent to which landings must be processed on a local area basis. In addition to this regulation of processing, the province has legislative authority for occupational health and safety as well as collective bargaining in the port market and in the processing sector. However, the province has no power in resource management, including fisheries science, setting of TACs, resource allocation and regulation of harvesting technology.

There is a longstanding perception that divergence of policies and priorities has been a major problem in the management of the fishery. This has given rise to a number of reports that have recommended various forms of policy coordination through the creation of a joint board. These reports include the following:

- House, Douglas, 1986, "Report of the Royal Commission on Employment and Unemployment", prepared for the Government of Newfoundland and Labrador.
- Harris, Leslie, 1990, "The Independent Review of the State of the Northern Cod Stock", prepared for the Minister of Fisheries and Oceans.
- Maloney, Aidan, 1990, "Report of the Commission of Enquiry into the Alleged Erosion of the Newfoundland Fishery by Non-Newfoundland Interests," prepared for the Honourable Clyde K. Wells, Premier of the Province of Newfoundland and Labrador.
- Dean, Leslie, "Report of the Special Panel on Corporate Concentration in the Newfoundland and Labrador Fishing Industry", prepared for the Minister of Fisheries and Aquaculture.

These reports, and others, have focussed upon the need for integration at the policy level, recognizing that any further integration, such as joint decisions through a single management body, first require that basic agreement exist at the level of policy objectives. Agreement on such objectives is a necessary, but not a sufficient condition, for successful management. We have concluded that there has not been enough policy integration and the management failures of the past can be attributed, in part, to defective intergovernmental coordination in this area.

A number of issues will illustrate the need for such policy coordination and integration. We will take two examples for the sake both of clarity and brevity but many others could be cited. These two relate to (1) resource projections and provincial allocations and (2) capacity and seasonality. These examples show that lack of policy integration leads to uneconomic choices that are detrimental to the building of a viable and competitive industry.

One of the principal factors influencing regulatory policies with respect to harvesting and processing capacity is the quantum of resource forecasted for the short, medium and long terms. If there is no agreement on resource projections then it is likely that the two levels of government will establish divergent parameters for the management of the harvesting and processing sectors. There is no formal mechanism to achieve convergence of views on global resource availability for major species. If each level of government takes a different perspective on the resource, they will adopt different policies as to how much processing and harvesting capacity is required. Not only is there need for a framework for making resource projections, but also to achieve agreement concerning the share of the resource that will be allocated to participants in each province. Without such agreement on global resource forecasts, or a reasonable basis for joint agreement on the resource level that will be allocated, the province is left in a very difficult planning position. The province will be operating in isolation, with the result being that the number of plants licensed will bear little relationship to landings. Such a disconnect cries for a solution!

The second example relates to the need for parallel development of the harvesting fleet and the plant capacity that processes landings from it. This parallel development should take place not only at the provincial level but also on a regional or local basis. If successful, there will be a regional balance between harvesting and processing capacity. If unsuccessful, there will not only be a lack of regional balance but the viability of enterprises will be compromised. With too many plants relative to landings, the raw material available to individual plants may be insufficient to achieve an adequate return. With too many fishing vessels the port market may suffer from depressed prices or else the quotas available to individual vessels may not be sufficient to allow a competitive return. Furthermore, regulatory controls at the harvesting level can have the effect of limiting vessel size, resulting in a very narrow seasonal window within which the fleet may operate safely. Such vessel size controls imposed at the federal level, which impair the mobility of the fleet, tend to create a highly seasonal pattern of landings. This creates pressures upon the provincial government to license a larger number of plants than the overall economics of the industry can justify.

There have been few attempts to achieve such policy integration. The appointment in 1953 of the Newfoundland Fisheries Development Committee, as a joint federal-provincial body, chaired by Justice Albert Walsh, was such an attempt. The restructuring of the offshore processing sector in the early 1980s represents an example of a close and effective working relationship forged to address a major financial crisis affecting the larger enterprises in the industry. (This occurred at a time when both governments were in the midst of disagreements over the division of fisheries management powers.) The Fishing Industry Renewal Board was established in 1994 as a federal harvesting adjustment board. Its mandate was broadened in 1996 through provincial participation and funding to include policy development for the processing sector. Its recommendations to the province provided the basis for a new licensing policy for that sector. These instances show that policy coordination can take place within the existing structure, even though such felicitous partnerships are infrequent.

Strengths of the Existing System

The present division of powers in the fisheries management system does have certain strengths. These advantages need to be balanced against the weaknesses. On the basis of this evaluation we will conclude as to whether fundamental changes in the management system are needed.

Ability to Pay

Clearly, the federal government holds preponderant management authority, relative to the province, and carries a much larger share of the cost. The federal government has much greater ability to pay for its extensive management responsibilities. The management of the fishery is an extremely costly undertaking, as evidenced by the expenditures of the Newfoundland region of DFO in 2001-2002 of $167 million. These costs include fisheries science and stock assessment; the broad range of fisheries activities involved in setting quotas, fishing seasons, minimum fish sizes, gear restrictions and so forth; the enforcement of regulations; regulation of fishing vessel safety and operation of the Coast Guard and the necessary support functions. From this perspective the existing division of powers represents a strength of the system, rather than a weakness, because the federal government can command the resources necessary to protect the resource and to implement the conservation measures needed to achieve the conservation objectives established either independently by the federal government, or jointly with the province.

Conduct of International Relations

Historically, other countries have exercised rights to fish in waters adjacent to Newfoundland and Labrador. With the advent of extended jurisdiction in 1977, this situation changed but the 200-mile extended economic zone did not eliminate the international dimension of fisheries management. Many important stocks straddle the Canadian zone and their management requires international agreement. The federal government has responsibility for the conduct of Canada's international relations and is in the best position to undertake negotiations with countries that claim the right to fish within the Canadian zone, or outside the zone, in the case of straddling stocks. This international dimension of fishery management requires a strong federal role, the exercise of which can be argued as a strength of the existing division of powers. However, it must be noted that there have been instances where the federal government has been blamed for compromising its fisheries objectives in order to achieve trade objectives in other sectors. Without a presence in these negotiations, the province is not in a position to safeguard the interests of its fishing industry. Nevertheless, it would be difficult to argue that the federal government ought not to be in charge of international fisheries relations. From this perspective, the current international mandate of the federal government has to be seen as a strength.

Resolution of Interprovincial Conflict

In addition to the international dimensions of the fishery and the conflicts arising from it, some form of conflict resolution is essential for resolving the interprovincial rivalry and conflict associated with fisheries management. The logical authority to conduct this conflict resolution is the federal government. However, as with the federal international role, there is a caveat that must be registered on the interprovincial role as well. This caveat relates to the principles of resource allocation. In its arguments leading up to the extension of jurisdiction, Canada relied heavily upon the rights of adjacent coastal communities in international law. Such rights are also used as a basis for establishing the rights of Canadians to fish. However, the federal government is perceived in this province as being prepared to weaken the adjacency principle to assert that fish resources are national in scope. The recent acceptance of the access criteria proposed in the report of the Independent Panel on Access Criteria by the federal Minister lends support to this perception. These criteria added a new principle of equity, which is seen in the province as a weakening of the principles espoused by Canada in its Law of the Sea negotiations.[123] It is argued that the principle of equity has the potential to weaken the principle of adjacency by allowing some participation by residents of other provinces in resources that are indeed adjacent to a province but which extend well beyond the near shore.

Insulation from Undue Political Pressure

We have heard the argument that federal fishery managers headquartered in Ottawa are in a better position to resist undue political pressure and therefore the powerful role of the federal government in fisheries management is a strength. Those who take this position argue that if the province were in control of resource management they would be less impervious to pressures to compromise the biological integrity of the resource by undertaking a more adventuresome approach in setting TACs. They also argue that the province would be more accommodating to pressures for additional harvesting licences and thereby further compromise the economic viability of the industry. These people cite what they consider the egregious overcapacity of provincially licensed plants in the processing sector to validate their viewpoint. The same argument is sometimes made to support continuation of the enforcement role of the federal government, based upon the greater ability of managers in Ottawa to enforce regulations without interference. Such political interference is deemed more likely if provincial ministers were vested with the broad enforcement powers currently exercised by the federal government.

Weaknesses of Existing System

The following are some of the more obvious weaknesses of the current highly centralized fisheries management system. These are indicated in the context of lack of coordinated fisheries management initiatives and complementary policies and the resulting general failure of fisheries management.

Inadequate Role of Province

The provincial government plays an important role in setting economic and social policy. Major functions of the province include significant social programs such as the funding and operation of the health care and education systems, funding of the University, the Courts, social services as well as economic programs relating to the management of natural resources. In other provinces where the major natural resources are land-based, the provincial government has the principal regulatory power to manage the economic destiny of the province. The principle of provincial ownership and management of natural resources is established in section 92A of the Constitution Act with respect to non-renewable natural resources and certain specified renewable resources (not including fisheries). Under the Atlantic Accord of 1985, the province acquired certain delegated powers, not through constitutional amendment but by federal legislation, with respect to the management of sub-sea mineral and petroleum resources on the continental shelf. This was seen as righting a wrong in the sense that, in the Terms of Union with Canada, Newfoundland and Labrador did not renounce any claim to its mineral rights on the continental shelf. The management arrangements made in the Accord for the new offshore petroleum sector recognized an important role for the province. Furthermore, citizens of the province look to the provincial government to establish social and economic policy objectives. The provincial government, in turn, finds itself frustrated with its lack of authority and its inability to participate meaningfully in major fisheries management decisions.

Lack of Provincial Vision

On the other hand, those stakeholders who argue for the status quo, or for even greater federal power, also argue that the province lacks stated, or indeed any, objectives for the fishery and has no vision of how it should be revitalized. These people cite the lack of a provincial White Paper to guide the fishery of the future and the fact the province's last consultative document (or Green Paper) entitled "Changing Tides" was never finalized, as proof of this position.

Lack of Bilateral Policy Coordination and Integrated Decision-making Mechanisms

We have discussed earlier the need for high level policy coordination and for integrated management decisions. The lack of such integration and coordination is perceived by many to be a major weakness of the current system. A number of recommendations have been made over the years to remedy this situation. These have included jurisdictional changes to enhance the powers of the province and various forms of joint boards to advise on policy or to implement decisions within a framework of mutually-agreed policy objectives. None of these proposals have come to pass.

Influence of Union and Industry

It is claimed that industry stakeholders, particularly the Fish, Food, and Allied Workers (FFAW/CAW) and the Fisheries Association of Newfoundland and Labrador (FANL), have more influence over federal fisheries decisions, and are more likely to be consulted, than the provincial department. This places the province in an invidious position where it can be taken off guard by decisions that will have a major impact upon the people of the province and the demands they will make for social programs and for alternative economic opportunities.

Exercise of Ministerial Discretion

The current system places a large amount of discretion for management of fish harvesting in the hands of the federal minister. The same is true at the provincial level with respect to the regulation of the processing sector. Both of these situations are anomalies in public administration. It is rare to find instances where Ministers can be so intimately involved, as Fisheries Ministers are, in making decisions that have such a major effect on individual enterprises. Usually, Ministers set the policy framework for such decisions but do not take the actual decisions. Both the federal and the provincial Ministers have powers that go well beyond the policy level. This creates the potential for the exercise of wide discretion in licensing and allocation decisions, that can be either a legitimate exercise of Ministerial discretion or, depending upon the circumstances, capricious interference outside of any policy framework. In the latter instance, the result is a highly unstable regulatory environment that compromises the competitive position of the fishing industry.

In other comparable situations, where access to public resources is conveyed in the form of temporary or permanent rights, there is normally an open, transparent process available where the general public has a right to intervene. There are many examples of these, including the Canada-Newfoundland Offshore Petroleum Board, the Canadian Radio Tele-Communications Commission (CRTC), the National Energy Board, the Alberta Energy and Utilities Board and the Public Utilities Board of Newfoundland and Labrador. These bodies make decisions based on evidence and the tribunals themselves must provide reasons for their decisions, based only on this evidence. The lack of transparency in the decision-making process is one of the main weaknesses of the existing fisheries management system.

We note that the establishment of the Fisheries Resource Conservation Council in 1992 represents a step in the direction of creating a higher degree of transparency by creating a mechanism for the public review of fisheries science. Public recommendations are made to the Minister of Fisheries and Oceans, based upon input from fish harvesters, scientists and other interested parties. This advice covers conservation measures as well as research and assessment priorities. The mandate of the FRCC covers groundfish only, and the final decision rests with the Minister.

Ministerial Control over Fisheries Science

The lack of federal-provincial integration in fisheries science is seldom cited as a major shortcoming of the existing division of powers. Nor is there evidence that major resource crises, such as the collapse of major Atlantic groundfish stocks, would have been avoided by better policy integration in this area between governments. However, there has been criticism of other aspects of fisheries science. In 1997, for example, within the context of the collapse of the groundfish fishery, Hutchings, Walters and Haedrich[124] argued that fisheries science suffered when the Fisheries Research Board was dissolved in 1979 and science was integrated into the Department of Fisheries and Oceans. Their contention was that political and bureaucratic interference in government fisheries science was harmful to the fish stocks and to the well-being of people who depend upon them. They argued that there should be an independent scientific organization which would be free of political influence and which would release all scientific information on stock abundance to the public at the same time it was given to the Minister. The authors conclude that the existing framework has failed to ensure viable fish resources and sustain the fishing people and communities upon which successful fisheries management depends.

On the other hand, another independent scientist, Trevor Kenchington[125] takes a somewhat different approach, arguing that fisheries management and science do need to be separated from the political arm of government but that they should remain together. He argues the need for science to be close to managers, to explain scientific advice and to understand the management questions that need to be addressed. He also believes that science has not been given the support it needs and that it has been starved of financial resources. Kenchington contends that senior scientists are not being replaced and that the work, which should be performed by scientists, is being done by technicians.

The formation of the FRCC in 1993 was an initiative to separate the decisions on TAC from the Minister and the internal operation of the DFO science organisation. The role of this body is currently under review by the Department and we have expressed our views on it elsewhere.

Political Control over Fisheries Management

The events leading up to the moratorium indicate how total allowable catches were kept well above $F_{0.1}$ even after the Canadian Atlantic Fisheries Scientific Advisory Committee (CAFSAC) had revised its estimates of the biomass. Hutchings *et al*[126] cite the example in 1990 of how the Minister established the TAC for 1991 at 190,000 tons, even though the $F_{0.1}$ level of harvest should have been only 100,000 tons. In 1992, it was clear that the TACs had been far too high in relationship to the retrospective estimates of the biomass and the Minister announced a moratorium on July 2nd. Why did the Minister select a TAC level in several years leading up to 1992 that was so far out of line with the scientific advice arising from the revised biomass estimates and the announced management policy? At the time, there was a sense that sudden adoption of the lower TAC would have imposed too much social and economic hardship. This gives rise to the argument that conservation would be better served through a separation of management from the political level. Furthermore, the conservation objective ought not to be compromised for short-term social and economic objectives.

Too Much Influence by Stakeholders

There is clearly a large public interest in the management of the fishery, because fish are a public resource. However, representatives of fish harvesters and processors dominate most consultative bodies. Provinces generally complain that the federal Minister and his Department give a higher level of deference to the union and industry than to provincial departments of fisheries. We understand the provincial Minister also consults extensively with these same stakeholders in this province. This high level of influence by industry stakeholders at both levels of government has the potential to compromise the overriding imperative of conservation and of stock rebuilding, given the unavoidable sacrifice associated with any meaningful level of stock recovery to historical levels. It has to be recognized that it is virtually impossible for people whose livelihood is at stake to give impartial and objective advice.

Inadequate Community Involvement

In assessing fisheries management options it is important to look not only at the role of the federal and provincial governments but also to examine how local communities and regions can make a larger contribution to the management function. There is an excellent precedent for this in the management of lobsters but for other shellfish and for groundfish and pelagics the full potential remains undeveloped. An example of some thinking in this regard is the proposal for community-based ecological fisheries management[127] advanced by the Conservation Council of New Brunswick. In that approach, Community Fisheries Boards (CFBs) would serve as a "trust" to hold and oversee management of inshore fisheries within a defined geographic area or on behalf of inshore harvesting groups. All such fishing licences would be held in trust by the Board and would not be the property of individual fish harvesters. The CFB would control fish stocks on an ecosystem level by effort control instead of quotas. In addition to managing fishing activities, the CFB would control other oceans activity in its coastal zone. Local fish harvesters would form a council within the zone with fisheries scientists serving as advisors. This model is similar to one in Japan where coastal fish harvesters' associations hold the right to fish and their management plans are subject to approval by the regional government. The NB Conservation Council proposal also allows for the management of stocks in larger geographic regions through Bio-Regional Fisheries Boards.

We are not able to take a position on this approach, as it does not seem to have advanced beyond the proposal stage. We do recognize that we must be open to new ideas for the better management of the industry. We are encouraged with the success of the Eastport project for the conservation of lobster. While it is sometimes argued that large stock complexes do not readily allow for regional or community management, the reality is that most of these stocks have important regional components which would benefit from local input with respect to protection of nursery areas and spawning grounds. We strongly advocate the encouragement of greater participation in such activities that will build a badly needed conservation ethic from the ground up. The lack of strong community and regional commitment to conservation is a weakness of the present system.

Women in the Fishery

Women have traditionally played an important role in the fishery. One of the weaknesses in the present system is that the governance of the industry has been dominated by male managers in government, in industry and in fish harvesters' organizations. We note that there appears to be little recognition of the historical role of women in the transition to more formal professional credentials for harvesters. Furthermore, the collapse of the fishery has had a particularly large impact upon women[128], with 12,000 out of 15,000 people losing their jobs being female. The data on participation by women are misleading because the earlier data would not have fully reflected women who processed fish at the household level in the 1950s and 1960s. Adjustment programs in which compensation was based upon "historical attachment" have failed to recognize the important historical role of women. In building a vision for the fishery of the future it is important that women be given a more prominent role in stewardship and in setting the objectives for stock rebuilding and for restoring the ecosystem to a more resilient and bio-diverse condition.

Conclusion

This assessment has been mainly directed toward jurisdictional questions and broad issues concerning the governance of the fishery. We have excluded from our scope many topical and detailed issues such as those surrounding gear technology, fleet separation, individual transferable quotas (ITQs), and the respective roles of seals, depleted capelin stocks and environmental factors in understanding the collapse of the groundfish industry.

The conclusion we have reached is that fundamental changes are required in the management of the fishery. Some of these changes will enhance the role of the Province in the management of the fishery, beginning with a long-term vision founded upon stock rebuilding. Other changes will provide for a more consistent application of fisheries policy and for changes in the process of management to make it more transparent, particularly in the pursuit of conservation goals. The options for making changes in the management of the fishery are set out in the next chapter.

Alternative Fishery Management Systems and Arrangements

In this section, we will examine two groups of options for provincial participation in the exercise of central fisheries management functions, which are those related directly to the control and regulation of fish harvesting and processing. These are the fisheries management functions divided along federal-provincial lines in Canada and that, over the years, have been the focus of much debate pertaining to division of powers. We will take a broader perspective than just the division of powers in assessing whether there are better ways of administering or carrying out these key functions, activities or responsibilities. All possible changes should be considered to accomplish the objectives we have set, including changes in the constitution, if that is what it takes.

There are a number of alternative approaches that could be taken to enhance the role of the province in fisheries management. Some of these options range from constitutional change that confers some specific powers (such as the setting and allocating of TACs) on the provinces, to jointly agreed federal-provincial administrative arrangements. In the first part of this section, we will review and assess a variety of alternative arrangements for changing the division of powers, including various proposals for constitutional change and for delegation of authority to independent boards. This review will be followed by an examination of unilateral and bilateral delivery options for key fisheries management functions in the last part of this chapter.

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Division of Fisheries Powers

Other Federal Arrangements

We have not conducted a thorough survey of other jurisdictions, but in our research we have looked briefly at two other federations, the United States and Australia.[129] It is our understanding that, in these federations, the arrangements for the sharing of fisheries management authorities were created through federal/state agreements and then reflected in statutes enacted at the federal (or, in Australia, at the commonwealth) level, rather than through constitutional change.

In the United States some fisheries management rights, such as for freshwater fisheries and tidal fisheries out to at least three geographical miles, are constitutionally vested in the States. Eight Regional Fisheries Management Councils, comprised of industry and government representatives, appointed by the federal and state governments, develop fishery management plans beyond the three-mile state limit through extensive public consultation. The Secretary of Commerce can overrule decisions of the Councils but rarely exercises this authority. Provision is made for judicial review upon appeal.

There is potential for a lot of conflict in this arrangement. It is clear that the States do have meaningful jurisdiction and that the federal government is not in full control. However, Parsons[130] concludes that "A central lesson from the U.S. experience is the danger inherent in an extremely decentralized system of fisheries management. While there are some advantages in allowing objectives to be set on a region-by-region or fishery-by-fishery basis, the failure to apply a national framework of objectives and standards can result in an extremely fragmented and ineffectual system of fisheries management."

The fisheries management system in Australia is characterized by considerable state and commonwealth agreement on exercising divided authorities for fisheries management. Australian states have management powers for fisheries in three-mile coastal zones and the Commonwealth for fisheries beyond that. A series of agreements has resulted in various arrangements for exercising these powers by either the State, the Commonwealth or jointly by both governments. In most cases, the Commonwealth has assumed control of fisheries that extend through and beyond state waters but some states have exclusive jurisdiction over specific fisheries that had previously been managed by the Commonwealth outside state waters. The basis for these management arrangements was provided by Commonwealth legislation. The Australian system gives the states a higher level of jurisdiction than Canadian provinces, although it is probably more centralized than the American system of regional councils.

What emerges from this cursory review is that other federations have attempted to strike a balance between the powers of the central government and those of the states/provinces. The arrangements underlying this balance have to be designed to fit the national circumstances. There does not seem to be a need to entrench them constitutionally.

Canadian Constitutional Discussions on Fisheries Management

The issue of fisheries jurisdiction was frequently debated in the Canadian constitutional discussions of the late 1970s and early 1980s. In 1980, Newfoundland made a proposal for concurrent jurisdiction whereby the federal government would have paramount authority in some areas, such as international negotiations, conservation and the establishment of TACs while other aspects of a local or provincial character would come under provincial jurisdiction, such as harvesting plans and fleet allocations. At a conference of first ministers in September, 1980 the federal government adopted a position that demonstrated some flexibility in turning over powers to the provinces. The federal government was receptive to provincial jurisdiction with regard to:

(1) Inland fisheries in the non-tidal waters of the province,

(2) Sedentary species in tidal waters in, or adjacent to, the province, and

(3) Aquaculture within the province and in tidal waters or adjacent to the province.

With respect to seacoast and marine fisheries, including anadromous species, the federal government refused concurrent jurisdiction but offered closer consultation.

> "With the exception of Nova Scotia, all provinces seemed to favour some form of jurisdictional change giving the provinces greater powers over marine fisheries. Quebec and British Columbia favoured exclusive provincial jurisdiction; the rest favoured concurrent jurisdiction with more or less power left with the federal government. Prince Edward Island and New Brunswick apparently wanted a strong federal role in the context of concurrent jurisdiction, while Newfoundland favoured a greatly diminished federal role."[131]

In the late 1980s, Newfoundland again pressed for increased provincial jurisdiction over fisheries. By this time, the level of support from other provinces was less than it had been in 1980. Notwithstanding a provision in the Meech Lake Constitutional Accord of 1987 that called for fisheries to be on the agenda for annual constitutional conferences, this did not lead to any agreement. Opposition to any change in fisheries jurisdiction continued thereafter.

When the Wells administration came into office in 1989 it adopted a policy of joint management, such as had been recommended in reports by Leslie Harris, Aidan Maloney and Douglas House. Premier Wells said that he was not seeking a change in jurisdiction but rather was proposing shared management with the Federal Government. The proposed board would be similar to the Canada-Newfoundland Offshore Petroleum Board and would have the power to set allocations, license fish harvesters, vessels and processing plants.

This proposal is set out in a 1991 document of the Government of Newfoundland and Labrador[132]. The joint management board would derive its authority from both levels of government. The goals would be: to improve industry efficiency and stability by integrating key policy responsibilities and making decisions closer to the local level; to foster the effective integration of economic and social priorities with fisheries management decisions; and to establish a more open and predictable management process. The board would make decisions with respect to the regulation of the harvesting and processing sectors, through resource allocations and licensing. The board would recommend TACs for those stocks that overlap the boundary of the Newfoundland zone, when vessels based in the province land the largest share. Once the federal Minister has set the TAC then the stock would be allocated among provincial jurisdictions based upon an agreed formula.

The federal government would continue to be responsible for scientific research, habitat management, resource protection, surveillance, enforcement, native fisheries and international affairs. The board would apply resource allocation principles. An intergovernmental agreement would establish the policy guidelines for the board and mirror legislation would be enacted by the provincial and federal legislatures. Equal numbers of board members would be appointed by federal and provincial governments with a jointly appointed Chair.

Federal Proposal for Licensing and Allocation Boards

In the same year, the Federal Minister of Fisheries and Oceans, John Crosbie, released a proposal for reforming licensing and allocation systems.[133] The purpose was to reform the system to avoid confusion about rules, to create greater transparency and to restrain the discretionary power of the Minister. The document points out that there is no guarantee of a public right to be heard in the existing system before decisions are taken. Nor is there any public right to know the basis on which decisions have been made or a requirement for decisions to be based on explicit policy. This contrasts sharply with other federally regulated sectors, such as communications and energy, where separate quasi-judicial administrative boards make decisions that are both visible and accessible to the public.

Two new management bodies would be created, one for the Atlantic coast and another for the Pacific. Each would manage licensing and allocation for the marine commercial fisheries. The Pacific board would also manage the tidewater salmon recreational fishery. The Minister would retain responsibility for management of the aboriginal fishery and for conservation of the resource. The Minister would continue to set annual harvest levels and establish the management measures required to meet conservation goals. The Minister would give policy direction to the boards. The boards would undertake routine licence renewals, licence transfers and allocate licences in new or under-subscribed fisheries. They would also allocate the annual harvest among various user groups and among fleet sectors and fishing zones. Sanctions would be imposed in the case of a fisheries violation but only after a hearing to review evidence. On the Minister's direction, the boards could hold public hearings into licensing policy issues and make recommendations to the Minister.

The government would appoint members of each agency for a fixed term from a list of knowledgeable persons who have no active stake in the fishing industry. Regional balance in the selection process would be respected. Each board would establish regional panels to conduct hearings with respect to applications and licensing decisions. Decisions arising from these hearings would be subject to appeal back to these agencies.

Wildsmith's Proposal for Constitutional Change

The following discussion outlines a specific proposal for constitutional change in fisheries management powers developed by Bruce Wildsmith. This proposal creates a framework for discussing other options for change. The proposal suggests a number of other options for expanded provincial powers through constitutional change.[134] His proposal was presented in 1986 and it drew upon the constitutional discussions that had taken place up to that time. The following narrative will trace the evolution of his proposal from the preceding constitutional discussions. This proposal is summarized here because it represents a useful starting point from which to examine other alternatives that lie outside of the framework of constitutional change. Wildsmith notes that the fundamental issue is the social and economic impact of management decisions upon the provinces. The thrust of his approach is to formulate a constitutional proposal to confer greater management authority upon the provinces, to enhance their ability to set social and economic policies.

> "The key components of the fishery as an economic activity are tied to a province and its land base. Fishing vessels, for example, are docked, depart from and return to a port in a province. In many cases, vessels are built in that province. The crews normally live in the province and raise their families in local communities. Equipment is likely to be supplied locally and is often produced or manufactured in the province. The fish is landed in the province and processed in plants located there."[135]

His approach is to isolate socio-economic decisions from conservation and preservation considerations, leaving the former to the provinces. He recognizes that these cannot in practice be totally separated but he uses this starting point in order to assign a greater role in fisheries allocations to the provinces. He also recognizes the practical difficulties in assigning fish on a provincial basis, given the fact that neither fish nor stock divisions respect provincial boundaries. The federal government would continue to have "exclusive legislative authority in relation to the preservation and conservation of all marine fish (except non-migratory molluscs), marine animals, anadromous and catadromous species of fish and transboundary stocks of freshwater species. Complementary to control over these fish and animals would be responsibility for their habitat, including water quality."[136] The federal government would assign each TAC on a province-by-province and stock-by-stock basis. The federal government would withdraw from assigning quotas by fleet sector, by gear or by enterprise, because this would be left to the provinces. Licensing would be a provincial matter but enforcement would be left to the federal government. International relations and protection of habitat would remain in federal hands.

In Wildsmith's proposal, the provinces would have exclusive jurisdiction to authorize fishing within three miles of their coasts. Management of fish stocks within these waters would still be federal but access would be restricted to local fish harvesters. Commercial fish harvesters from other provinces would be kept at least three miles from land or from any island forming part of a province. Each provincial government would have exclusive legislative authority in relation to non-migratory molluscs (excluding squid) and stocks of freshwater species confined to the province. This would include all matters related to conservation and protection, harvesting, allocations, sale within the province, environmental protection and related matters. Aquaculture would be under exclusive provincial control, subject to federal override with respect to protection of the wild fishery and its habitat, shipping and navigation and marketing of fish outside the province. Marine and aquatic plants would be exclusively provincial except for a federal override to protect habitat and wild fish stocks.

Nine provinces supported provincial management of inland fisheries, sedentary species, aquaculture and marine and aquatic plants during the 1980 First Ministers Conference on the Constitution. The federal government approved the proposal in principle but with some reservations, on provincial powers over marine and aquatic plants. During the conference, nine of 10 provinces wanted at least concurrent jurisdiction over marine fisheries, while the federal government and one province were opposed. The provincial position was that both federal and provincial governments should be allowed to make laws relative to the sea coast fisheries. The nine supporting provinces therefore advocated concurrent rather than exclusive jurisdiction. They proposed that the federal government would set TACs and implement other conservation measures, allocate quotas to foreign countries and licence foreign vessels. In these matters, the federal government would be paramount. Provincial powers would be the fixing of catch levels within federally determined TACs, issuing quotas up to these levels and licensing domestic fishing vessels. Residual powers would be provincial, in the "Best Efforts Draft" endorsed by nine provinces. The provinces would allocate quotas in the fishing areas adjacent to each respective province. The provinces were to reach agreement on provincial shares based upon established principles, including traditional fishing patterns.

While the 1980 Best Efforts Draft would provide for an independent arbitrator, Wildsmith would make the federal government the arbitrator on the question of provincial shares. He recognizes that this arbitration role would be controversial. He suggests that this might not be too difficult for established fisheries where traditional patterns could be continued. New stocks, newly exploited stocks and expanded TACs would be more difficult but he suggests the use of the principle of equal access,[137] which is part of the Common Fisheries Policy of the European Union, along with the adjacency principle. Aboriginal people have an entitlement to a share of stocks that they have historically exploited and the federal government would have to set aside a proportion of the TAC for aboriginal use before calculating provincial shares. The aboriginal groups would be responsible for allocations to their members. Once an equitable distribution of the TACs has been made among the provinces, each can then make an allocation of quotas to various fleets and regions within the province. The province could decide what kind of industry it wants to create in terms of vessel size, size of enterprise and choice of technology. Each province can decide on whether it wants to encourage regional fishery centres or, alternatively, use the fishery to maintain a dispersed population.

> "Each province would have exclusive legislative jurisdiction over the distribution of its percentage of each TAC set by the federal government, including the licensing of fishermen and vessels and control for socio-economic objectives on method of capture and seasons. The province would be able to deal with points of landing, sale of fish (even if caught outside the province) labour relations in the provincial fishing industry, processing and local marketing."[138]

Wildsmith sees his model for constitutional reform, which creates a new allocation role for the provinces, as responding to their social and economic aspirations. It also places the provinces in an ownership role in which there is an incentive for them to make good decisions. He also sees some merit in allowing provinces to establish policies that will be a better fit to local conditions than a rigid centralized structure. He sees regional diversity of management structures as a positive factor.

Asymmetrical Federalism

A strong case can be made that special arrangements should be made for this province because of its high historical and continuing dependency on the fishery. It is possible in a model of asymmetrical federalism for different provinces to have different powers. It has to be recognized that provinces are different and that the powers assigned to them should reflect these differences. Indeed there are examples of this, including the arrangements for protection of denominational education in Newfoundland in its Terms of Union with Canada. The delegation of fisheries management powers to the Province of Quebec from 1992 to 1983 is an example of asymmetrical federalism as is the application of French civil law in Quebec. The province can advance such a claim for enhanced powers with particular cogency when it can present a proposal that is non-threatening to other provinces.

The Prospect of Constitutional Change

Wildsmith notes that there are three ways of realigning the role of the provinces in fisheries management: constitutional amendment, delegation of powers and federal-provincial consultation. We will later discuss an additional option to this list, the provision of independent policy advice through a jointly appointed advisory board. The discussions of the 1970s and early 1980s focussed directly on constitutional change. It is clear that the momentum behind this constitutional approach has now been lost and circumstances are not currently propitious for renewal of those efforts.

In seeking to re-open the question of constitutional change, the province would have to weigh the alternatives. The Province might consider seeking full management authority, including fisheries science, conservation measures, allocations and licensing, enforcement and so forth. Such a goal would be unrealistic in light of the high cost. The opposition to such a constitutional change would also be formidable. Other provinces would strongly oppose giving Newfoundland and Labrador the power to set TACs for stocks harvested by their residents. A more modest goal might be to seek jurisdiction for fisheries management authority below the level of conservation and TAC setting. This might include licensing of vessels and harvesters as well as allocations of quotas to the various fleets. Such an arrangement could lead to a situation where fish harvesters would have to secure licences from more than one management authority. A Newfoundland and Labrador authority deciding upon allocations to residents of other provinces also would be strongly resisted. We feel there must be some realistic prospect that the proposed approach will be acceptable and have a realistic prospect of success. A successful proposal, at a minimum, must not be perceived as a threat to the allocations and access of other provinces and their residents.

Our conclusion is that constitutional realignment of fisheries jurisdiction is not a practical alternative nor a realistic option at this time. For this reason we have excluded constitutional change, whether it would involve concurrent or exclusive jurisdiction, as a practical policy alternative for the short to medium term.

Based on the past record the following conditions would have to exist, at a minimum, for any actual transfer of powers to occur:

- Federal-provincial discussion of major constitutional change would have to be opened again.
- There would have to be the possibility of inter-provincial trade-offs.
- Wide political, public and industry support for changes in the division of powers to manage fisheries would have to exist.

Because these pre-conditions definitely do not now exist, we will now examine ways in which exercise of the currently provided federal-provincial powers could be improved or delivered on a unilateral or bilateral basis.

Options for Exercise of Existing Powers

We will include the following under the heading of core or central fisheries management functions:

1. Stock Assessment
2. Setting the Level of Catch
3. Fisheries Licensing and Allocations
4. Processing Licensing and Other Controls
5. Fisheries Enforcement

We will also quickly review some of the other significant governmental functions that, while affecting the conduct of fishing industry activities, do not control the size or shape of the harvesting or processing sectors.

We will assess the optimal form of delivery for the core fisheries management functions against a set of selected criteria. We have selected these because they represent the types of performance measurements invariably at the centre of criticism of various efforts of governments to manage the fishing industry. In our view, any change that improves one or more of these performance indicators is an advance over existing arrangements. We, then, make a further assessment or judgement as to whether it is feasible to pursue a suggested change in delivery arrangements. These include the likelihood of governments agreeing to the proposed changes and the extent of industry support that may exist or could be generated.

We have adopted the following criteria to assess the various options we will identify for each management function:

1. Impartiality, the absence of subjectivity and of blatant value judgements in ministerial decisions.
2. Highest degree of excellence of outputs or results.
3. Visible and transparent operations.
4. Adherence to stated or agreed objectives.
5. Efficiency of operations.
6. Ability of the respective governments to pay.
7. Supportive of conflict resolution and policy coordination.

Real or perceived deficiencies in some, or all, of these levels of achievement are the cause of all complaints directed at governments for their handling of various fisheries management functions. However, the causes of some results are not found amongst these performance standards but more in the unpredictable, un-measurable or uncontrollable features of the overall fisheries system. Two examples of these are: (1) the lack of an absolute method of measuring the size of fish stocks and (2) the absence of adequate international management regimes for straddling (and high seas) stocks. The first is beyond the present capability of fisheries science; international law, as now accepted by the world community, does not permit an immediate and effective solution to the second. We will assess and propose optimal approaches to carrying out certain fisheries management functions but without suggesting the changes will cure all the current ills of fisheries management. First, we will examine each of the central functions individually and offer conclusions on the preferred unilateral delivery option without reference to changing the division of powers. After that, we will be led logically into an assessment of some obvious joint delivery arrangements that flow from the review of options for individual management functions.

Individual Core Functions

Stock Assessment

This is the function of collecting, analysing and interpreting various forms of data to provide a status report on fish stocks and the effects of various levels of fishing on them in future time periods. The Regional Science branches of DFO presently conduct this function through their ongoing stock assessment activities. Stock Status Reports (SSR) are developed in regional or Atlantic zonal assessment sessions that include external private sector and institutional participants. These SSRs are then made publicly available. The FRCC, an independent body of industry and institutional members, consults widely for input into the public advice it provides the Minister on catch levels and other management measures for groundfish stocks. The Stock Status Reports for other species (other than groundfish) are discussed in the various species advisory committees and then the Department of Fisheries and Oceans conveys the final (and only) advice on catch levels and other measures to the Minister.

This full-time function requires continuous data collection, specialized research studies and the application of the latest scientific modelling and analytical techniques. For over 20 years it has operated as part of the federal fisheries management structure, providing this service to the Minister for domestic fisheries and contributing to the NAFO Scientific Council's provision of advice to the Fisheries Commission of that organization. Canadian stock assessment efforts are no longer criticized as being secretive and excluding input from other experts. The most consistent complaint now is that the function is too under-funded to provide advice on the ever-increasing numbers of stock management questions being posed. The options for changed delivery of this activity include the following:

1) Provincial Delivery
2) Third Party/Arms Length
    a) Crown Agency or Board
    b) University
    c) Private Sector Entity

It is unlikely the provinces have the ability or willingness to pay for conducting this activity. It is also highly unlikely the fishing industry as a whole would prove willing to contribute financially to an alternative arrangement for provision of this function. This might hold some promise in the most lucrative stocks where some form of co-management creates a vested interest in a higher level of assessment funding.

It has been suggested that fisheries science should operate apart from the potential of interference by politicians and senior officials. To separate fisheries science from management creates the danger that science will not address the relevant questions but might focus on issues more in the realm of pure, rather than applied, research. Separation might also create a barrier to the interpretation of scientific conclusions for use by fisheries management. These drawbacks would apply whether greater independence was achieved either by re-establishing an entity similar to the old Fisheries Research Board or by moving fisheries science into a university setting.

Our considered conclusion on the options listed above is that the best results against the criteria listed will be achieved if science continues to be aligned with resource management. Stock assessment is an activity needed only by the fisheries management authority; it has no real market value and is only the first step in the annual fisheries management process. In this case, it can operate in a more focused manner as part of that structure than in one where the first concern might not be the annual requirement for input to management decisions. This would be especially true of any arrangement where basic research is seen as a preferred activity. Scarce financial resources would be another compelling reason to keep Stock Assessment with the fisheries management authority where the priorities on the need for this input can be most effectively asserted. The FRCC advisory function separates the conduct of stock assessment more clearly from that of TAC setting. The association of the two in the past was a major criticism of that function and fisheries science as whole.

Setting the Level of Catch

This is the function of deciding or setting the level of annual harvest for each stock. This has become commonly known as TAC, or quota, setting and has been one of the more controversial areas of fisheries management since it began in the 1970s. It has been a wholly federal responsibility with the power exercised by the federal fisheries Minister based on scientific advice generated by stock assessment scientists and commented upon by fisheries advisory committees. Beginning in the mid-1980s, this annual process for groundfish came under considerable criticism because the Minister was perceived to be ignoring scientific advice or receiving advice additional to what was made public. One result of this was the formation of the Fisheries Resource Conservation Council (FRCC), an arms length body of private sector and institutional experts, to provide public advice to the Minister on allowable catch levels and other management measures for groundfish stocks. In recent years, concerns similar to those of the 1980s are being raised regarding the catch levels for other species, but especially shrimp and crab. The popularly predicted repeat of the groundfish collapse in these species raises the policy question of whether the TAC setting process in other species groups should be made similar to that in groundfish or whether even that process itself should be revised.

The most significant possibilities for changed approaches to setting annual harvest levels include:

1. Federal Minister with public advice for all stocks from an independent conservation advisory committee (e.g. FRCC).
2. Quasi-judicial commission with public advice for all stocks from an independent conservation advisory committee (e.g. FRCC).

The first option would put all TAC setting on the same basis that now applies to groundfish. This would extend the improvements (openness, transparency, increased impartiality, input from other experts) achieved there to all other species managed by quotas. It would not make TAC setting completely free of possible political influence in so far as the Minister is not legally bound to accept the advice tendered.

Only a quasi-judicial commission, established under a separate Act that specifies the basis on which it must decide annual harvest levels, could achieve that. This independent TAC-setting Atlantic Canada Fisheries Conservation Commission (ACFCC) could also be required to conduct public consultations before reaching its annual decisions. Alternatively, an independent conservation advisory committee similar to the FRCC could advise it. This commission would set the annual catch level in accordance with pre-described principles that cannot be departed from. While this would ensure that the basis for decision is clear and unchanging, it might also imply no flexibility to manage the immediate social and commercial impacts of identified resource downturns. It was the exercise of this flexibility that caused significant departures from scientific advice or resulted in decisions to set TACs at the upper end of the ranges of uncertainty that had been estimated by scientific stock assessments. However, government in establishing the policy framework within which such a commission would operate could give it the latitude to take social, community and commercial consequences into account. This would not be our advice. We strongly believe that the policy framework for management of fish stocks must be confined strictly to conservation criteria. This commission must be given specific conservation objectives to restore key stocks to levels that existed before the resource collapse of the early 1990s. For example, the abundance and species mix that existed at the time of Confederation might well be the target that governments should set to be achieved by the board or else the abundance that existed prior to massive overfishing.

The issue in these two broad approaches to quota setting is how much improvement would be achieved by extending the FRCC approach to all stocks or by going a step further and removing all quota-setting power from the federal Minister.[139] While the current groundfish arrangement has removed the source of certain previous criticisms of the Minister, it has not produced stock recovery. Nor has it eliminated the resistance to quota reductions from the same industry participants who a decade ago accused the government of being too tardy in reducing catch levels. Where previously "the proper interpretation" of the available scientific information was claimed sufficient to reduce quotas or close fisheries such actions now are resisted by calling for "more science first". In such a conservation deficient milieu, it is likely the most impartial, visible and undeviating of the two approaches (Independent Commission operating under special legislation) would be rejected by industry because it would remove access to a politically accountable Minister. It might also be resisted politically because it requires the federal government to pass its legislated responsibility for conservation to an un-elected body. The existing system is characterized by the powerful influences wielded by well-organized stakeholders, particularly when the management regime is subject to a high level of political control. Such stakeholders often want to push the conservation envelope while those who would speak on behalf of conservation and the broader public interest are less well-organized and financed. An independent board may allow a more committed approach to conservation by providing a forum for a more balanced articulation of the public interest and the public good.

The option of extending the FRCC approach would be an improvement over existing arrangements and more likely to gain industry and federal political support. However, it, in and of itself, would not be our choice. In this case, we would favour the independent commission, supported by the activities of an expanded FRCC that would make public recommendations to it. That would create more certainty about the basis on which TACs are set and should eliminate compromising the resource in the decision-making process. The board would review FRCC reports in the context of an open, transparent public hearing, where the decisions taken must be based on evidence freely available to all.

Fisheries Licensing and Allocations

While the public criticisms and outcries may have been the greatest in the case of TAC decision-making, fisheries licensing and allocations of quota have occupied even more time of industry participants, ministers and officials. Initially, licensing was more administratively separate from the questions of quota allocations and sub-allocations but the two are now more inextricably bound together. A decision on a new allocation is now much the same as a decision on a new licence or vice versa. These are the two functions that determine who benefits and to what extent from the available fisheries resources. The outcomes of these activities have been behind most of the federal-provincial debates about division of powers in the 1978 to 1992 period, the subject of long and arduous discussions in the numerous species advisory committees throughout the Atlantic and the cause of the several significant disagreements between federal and provincial governments. The best examples of the latter include the first offshore Northern shrimp licences, the Nova Scotia offshore lobster licences and the inshore/offshore split in the 2J3KL cod TAC.

While some will argue that most allocation and sharing arrangements have been resolved, unexpected decisions from exercise of this function still occur and generate outbursts of protests[140]. The recent report of the federal Independent Panel on Access Criteria and the Minister's acceptance of some of its recommendations on access principles and priorities ensure that this topic remains one of significant uncertainty for future allocation decisions in emerging fisheries, significant quota increases and decreases, and re-opening of long closed fisheries. This arises because the Panel chose to reduce the weight assigned to the adjacency principle and to specify gradations in adjacency. In addition, the panel enhanced the weighting placed upon "equity", which gives the decision-maker a high level of discretion to allocate in a completely arbitrary fashion and without a clearly stated and quantifiable policy framework. The Minister rejected the Panel's recommendation for an independent advisory committee to address allocation issues that cannot be resolved within the Atlantic.

The outcome of the federal-provincial exercise on calculation of provincial shares would seem to be the cause of more uncertainty. These shares were to be calculated to provide assurances that measures taken by a province to reduce harvesting and processing capacity, in the context of fisheries adjustment, would not undermine the province's access to resources. The federal government has never accepted the concept of provincial quota shares, maintaining quota allocations are made to licence holders in variously designated fleets. The federal position is that quota allocations to individual fleets are simply that and do not imply any ownership or control by provinces. Consequently, the calculations from this exercise are to be taken "as benchmarks only" and not as definitive provincial shares.

The major options for new delivery arrangements in these functions that would eliminate this sort of uncertainty, create stability of access, increase transparency and impartiality of decisions and remove a major burden from the federal Minister are the following:

1. Independent (Quasi-judicial) Board that sets all allocations and issues all licences (on basis of policies promulgated in advance).
2. Independent (Quasi-judicial) Board that sets allocations only in cases of major TAC increases (beyond a specified percentage change) or completely new species quotas and issues licences for them when new entry is approved (on basis of policies promulgated in advance).
3. Independent (Quasi-judicial) Board only hears appeals (on basis of policies promulgated in advance) against decisions made in (1) or (2).

In many respects, the last of these options, while a minor improvement over the present arrangement, might be an acceptable one if there were no more major allocation decisions to be made down the road. This is not certain and could leave future decisions to be made with no clearer understanding of the applicable policies than exists today. It would still exhibit the lack of impartiality, transparency and consistency many feel now exists in the current approaches to allocation decision-making. These deficiencies would be removed under the first or second suggested mandates for an arms-length board, especially if the second option explicitly included a sanctioning of existing allocation arrangements. Our overall preference would be for the mandate of this independent board to apply to all allocation decisions, clearly leaving existing sharing arrangements in place on a permanent basis.

Processing Licences and Controls

This part of the fishing industry management system is under provincial control. It has developed many of the same issues, problems and criticisms that we have seen in the harvesting area. There are claims of lack of impartiality, transparency, consistency and application of clearly stated policies. We have outlined earlier how the problems of overcapacity are similar to those in harvesting and the complaints about the level of, and lack of access to, overall benefits from processing are almost identical. As well, the kinds of controls the provincial government has adopted for management of this sector bear many resemblances to those used by the federal government in the harvesting sector.

The effective options to improve this function, in the same sorts of ways as above for the federal allocation and licensing activities, revolve around the following:

1. Provincial Minister with public advice from an independent advisory board or committee.
2. Independent Provincial Board that issues licences and associated restrictions (on basis of policies promulgated in advance).

The first option leaves the decision-making powers with the Minister but would subject them to the scrutiny created by public and open advice of an advisory board; the second option removes the decision-making entirely from the Minister. This board would operate under provincial legislation and would be guided in its decisions by policies publicly stated by the Minister or incorporated in its establishing legislation. In terms of our criteria, we would favour this latter approach while recognising that the traditional resistance by both ministers and industry members to such independent board proposals will remain. In the first case, it seems to be a guarding of powers and in the second a preference for the option of lobbying an elected representative over that of more open and impartial decision-making. However, there now appears to be support for an independent licensing board for fish processing, in that the recent recommendation by the Independent Panel on Inshore Shrimp was supported by both processors (represented by the Fisheries Association of Newfoundland and Labrador) and fish harvesters (represented by the FFAW/CAW).[141]

Fisheries Enforcement

This element of the overall fisheries management system is often overlooked. Many, if not all, management measures are only as effective as the capability, resources and commitment to enforce them. Except for enforcement under the two fish inspection acts all commercial fisheries enforcement is conducted by the federal government. The RCMP assists domestic enforcement while boundary line and NAFO enforcement receives some assistance from the Canadian Armed Forces. In all cases the federal fisheries authority controls the enforcement policy in terms of priorities and strategies. Moreover, the field of fisheries enforcement is now as specialized as any other fisheries management function and, indeed, has developed its own literature dealing with theories, practice and effectiveness measures.

There are few options for alternative delivery arrangements for commercial fisheries enforcement. Apart from the unlikely involvement of provincial authorities the main alternative would be to move this function out of the federal management authority and place it with other law enforcement agencies and/or the Armed Forces. However, except for some sovereignty considerations in terms of the Canadian Extended Economic Zone (EEZ) that could involve more Armed Forces resources, we are not aware of any compelling reasons to remove this function from the federal fisheries authority. Enforcement of fishing rules and regulations is an integral part of achieving the objectives established for fisheries management. As such, there is a significant need to conduct this function in a targeted manner to focus on particular areas of non-compliance or other identified management priorities. It is our view that, *ceteris paribus*, such results are more certain when enforcement is part of the dedicated fisheries management organisation. Less than satisfactory attention will be given when this function is not accorded such attention and priority. We would leave delivery of, and responsibility for, the commercial fisheries enforcement unchanged. Likewise, we would not tamper with the current arrangements for the enforcement activities for inland sports fishing that are an ideal example of working in a shared jurisdiction. Reciprocal administration of the two fish inspection acts is no longer feasible since the provincial legislation now provides for entry and capacity controls and enforcement of the federal act is now part of a broader federal agency responsible for food inspection.[142]

Joint Delivery Options

Our assessment of unilateral delivery of individual fisheries management functions produced some possibilities for alternative unilateral delivery arrangements by the present authorities. It also suggested that some joint delivery options exist for several of the core fisheries management functions. In this part, we will reduce those possibilities to two functional areas and discuss the possible options for bilateral delivery. We arrived at these two potential functional areas by the following process. We have concluded that stock assessment should be left with the federal fisheries authority as the best delivery arrangement and, therefore, we do not see this as a candidate for bilateral delivery. There does not seem to be real advantages in any form of joint delivery of this specialized function because it must be objective, "state of the art" and focused on the needs of fisheries management. We also rejected changes in the delivery of fisheries enforcement because other arrangements do not offer improvements or are not simply possible or affordable. This conclusion also effectively ruled out joint or reciprocal enforcement of commercial fisheries and fish inspection act measures. We are of the view that the responsibility for setting the annual level of harvests is best left with the federal side, if for no other reason, because these must be set for all stocks in the Atlantic managed by quotas. Joint arrangements for this function in some cases, such as the Gulf of St. Lawrence, would then involve five provincial governments (plus the federal). On balance, our preference in this case remains an independent federal board advised by a conservation advisory committee. This would not preclude a stronger advisory role for the provincial government in the setting of TACs for stocks that are harvested principally by residents of the province.

That leaves the federal functions of fisheries licensing and quota allocations and the provincial controls on processing operations as the remaining possibilities for some form of joint Canada-Newfoundland arrangement. The only options that we judge effective in removing the deficiencies of the current system are the following:

A Joint Canada/Newfoundland and Labrador Fisheries Management Authority (CNLFMA) that administers:

- Quota allocations to Newfoundland and Labrador fleets.
- Fishing licences where required by new quotas or transfers of existing authorizations.
- Issuance of new, or transfer of existing, processing licences.
- Design of other processing sector controls.

This board would operate within policies jointly set by both ministers and would administer allocations to provincial-based fleets based on TACs that would have been set by the independent federal TAC setting board.

A Joint Canada-Newfoundland and Labrador Fisheries Policy Board that coordinates federal-provincial policies for Newfoundland fisheries by:

- Issuing public advice to ministers on a regular and autonomous basis, and/or
- In response to issues referred to it, individually or jointly.

The first option would most effectively remove the criticisms of lack of impartiality, transparency and consistency from these functions. This arrangement would allow for the direct coordination of federal and provincial measures to manage the harvesting and processing sector. This would remove a long-standing source of bilateral complaints by both levels of government. Then the federal side could no longer complain that provincial processing policies or initiatives were compromising its harvesting management initiatives. Nor could the provincial authority claim that a lack of input to management of the harvesting sector was thwarting its efforts to undertake coordinated and directed development of the provincial industry. Similar complaints by industry directed at both sides would have less credibility.

The Canada-Newfoundland and Labrador Fisheries Management Authority would be appointed by the federal and provincial ministers, with each minister appointing an equal number of members and a chair appointed by mutual agreement. Members would serve for a fixed term and subject to good behaviour. The Authority would report to the two ministers, who would provide policy direction as required by the Authority. The governing legislation would be enacted by both the provincial House of Assembly and by the Parliament of Canada. It would provide for regular meetings of the two ministers to receive a report on the operation of the Authority and to consider the need for regulatory policy changes. The ministers would not be involved in individual licensing or allocation decisions but would set broad policy. In the event of a disagreement on a policy relating to fish allocations or licensing, the federal Minister would have paramount power, while in the case of application of processing policy the provincial Minister could make the final decision.

Allocations of resource to the province for disposition by the Authority would be made by the Atlantic Canada Fisheries Conservation Commission. This would be based upon traditional shares for existing resources. For new resources, mutually agreed allocation principles would apply.

This new approach to allocations and licensing would have the effect of enhancing the powers of the provincial Minister by providing an opportunity to participate in policy decisions relating to the harvesting sector, as well as those relating to the processing sector.

The separate joint policy board that would provide management advice to both ministers on an autonomous and/or referral basis could also complement this joint arrangement. This would complete the circle in putting fisheries management completely in the public domain. No decisions would be taken on any aspect except in an open and public manner and against published policies that were indeed first publicly advised. This would also make fisheries policies and the application of them more stable and consistent because to do otherwise would risk immediate public reaction (and condemnation). The role of this joint policy board would also include advising the Atlantic Canada Fisheries Conservation Commission with respect to TACs and management plans for stocks in waters adjacent to the province. This would include examination of measures for the rebuilding of stocks and the restoration of fisheries habitat and ecosystem biodiversity.

We have concluded that the types of new arrangements we have discussed in this section constitute preferable ways to conduct fisheries management in the future. These types of new delivery mechanisms will remove the basis of most complaints levelled at past arrangements by all players. A more coordinated and stable approach is also necessary for the more focused policy objectives we have recommended earlier because these are aimed at optimizing the mix of economic and social benefits that can be obtained from the fisheries resources adjacent to the province. However, this does not mean that these changes will meet with the approval of all, or even any, of the current players. Ministers at both levels in the past, with one exception, have been reluctant to have any of their powers fettered in any way. (The exception was the

Honourable John Crosbie, who proposed an independent Atlantic allocation and licensing board.) Industry has not been supportive of past proposals to pass certain decision-making powers to independent boards. In particular, they also have not supported enlarged provincial fisheries management powers. Other provinces, as well, have also resisted transfer of federal regulatory powers to their provincial counterparts, especially when those involve the setting or sharing of annual TACs. This means, in essence, that no change in the exercise of powers is likely to occur, even if it is only in joint or bilateral agreements, unless there is concurrence at all levels of the Atlantic fisheries management system.

Summary of Proposed Management Arrangements

In summary, we believe the following changes to the current management arrangement for fisheries in Newfoundland should be pursued:

A. A quasi-judicial commission appointed by the federal Minister, the Atlantic Canada Fisheries Conservation Commission (ACFCC), that could receive advice on all species from a conservation advisory council (e.g., the Fisheries Resource Conservation Council) and other sources and render TAC and other major conservation oriented decisions. This Commission would also be charged with allocation decisions on provincial fleet shares in new or existing species fisheries as well as for existing resources.

   Our recommendation is that the province make representations to the federal government for the creation of such a quasi-judicial Atlantic Canada Fisheries Conservation Commission, to set TACs and manage interprovincial access and allocations, not dissimilar to the Canadian Radio-Television and Telecommunications Commission (CRTC) or the National Energy Board (NEB). This Commission would make major conservation (TAC) decisions, that would be implemented by DFO, based upon a transparent process in which evidence is received from a variety of sources, including DFO Science, the FRCC, industry stakeholders, the general public and the provinces. With respect to resource allocations, the inshore sector would have preferential access to Northern cod, Northern shrimp and other stocks similarly accessible to the inshore fleet. The federal Minister would determine allocations to aboriginal groups. The Commission would allocate shares to provincial fleets for stocks in which resident harvesters have historical rights. For new or expanding fisheries, agreed allocation principles would apply, subject to preferential access by inshore harvesters in adjacent coastal communities. This Commission should be comprised of knowledgeable and independent people with no personal stake in the decisions and should be gender balanced.

B. A quasi-judicial Canada-Newfoundland and Labrador Fisheries Management Authority appointed by both the federal and provincial fisheries ministers to make decisions with respect to licences and allocations for the Newfoundland and Labrador harvesting sector and licences and other control measures in the Newfoundland and Labrador processing sector.

Our recommendation is the creation of a joint Canada-Newfoundland and Labrador licensing and allocations authority, whose mandate would encompass the harvesting and processing sector through delegated administrative powers from the province and the federal government. This authority would operate under a policy framework agreed upon by both ministers. Intraprovincial access and licensing decisions would be made based upon interprovincial allocations decided by the federally appointed fisheries management commission. This authority would be comprised of an equal number of members appointed by the province and by the federal government, with a chair selected through the mutual agreement of both governments. The members should be knowledgeable and independent people with an effective balance of men and women.

C. An independent (not quasi-judicial) board to provide policy advice, either on its own volition or in response to referrals by ministers or by stakeholders.

This board would have no decision-making powers but it would be, in many ways, the most important of the three mechanisms recommended. This board would provide policy advice as requested by either the federal or provincial governments or else on the motion of the board itself. Another important role for this body will be to provide advice to the Atlantic Canada Fisheries Conservation Commission with respect to stock management and, particularly, to advise on the TACs of stocks in which the province's fleets are the major participants. The policy advisory board should establish targets for the rebuilding of major species and prepare draft management plans to meet identified medium and long-term targets. This board should be comprised of an equal number of members appointed by each government with a mutually agreed chair. All members should be independent of any personal stake in the fishing industry and should not be employees of government. The membership should recognize that women have as large an interest in fisheries policy as do men. The initial tasking of this board should be to formulate the policy framework for the creation of a joint licensing and allocations authority (i.e., the Canada Newfoundland and Labrador Fisheries Management Authority), as recommended above, because such an authority can work only if there is congruence of policy, covering both the harvesting and processing sectors.

Until the conditions are right for the types of changes involved in (A) and (B) the formation of the joint policy advisory board might be a logical first step in development of new arrangements to change the exercise of fisheries management powers. The successful operation of such a joint board would tend to remove some of the reasons that now prevent new institutional arrangements. Indeed, making the first task of such a policy coordination body the preparation of a mutually agreeable proposal for joint management of the provincial harvesting and processing sectors would greatly advance this initiative.

Delivery of Ancillary Functions

There is a wide range of other government functions that have effects or influence on the fishing industry. While none of these directly control or influence the size of the harvesting or processing sectors, they do influence the levels or types of benefits that industry participants can expect from the industry. These include legislation or regulations directed at occupational health and safety in land and sea based activities, general environmental practices or requirements, training and professionalization of fishermen and processing workers, and collective bargaining. Because these do not, in their own right, determine the level of harvest or the numbers of fishing or processing licences they are not functions found in the provincial or federal fisheries administrations. Nor do we see any instances in which they should be transferred. While the fisheries managers at both levels should be cognisant of, and familiar with, such functions we see no need to change the present setting of any of these powers.

It has come to our attention that women have experienced barriers in progressing toward professional standing as fish harvesters and we recommend that the Professional Fish Harvesters Certification Board consider methods to remove barriers to training and accreditation of women. One step to this end might be more community-based training programs that would facilitate participation by women by making such training more accessible on a local basis.

Other Special Considerations

In this research project, we have examined many aspects of the fisheries management system. These included the past, present and future considerations for exercise of the powers to manage fisheries in Canada, the high level objectives that should be adopted for fisheries management in the future and the best approaches to share management powers from the perspective of Newfoundland and Labrador. In the preceding chapters, we have expressed our considered views and proposals on all these matters, as required by our terms of reference.

In the preparation of this report, we also became aware, or were again reminded, of a range of other factors that influence the place of fisheries management in the mosaic of the province and the views of others on it. These cover all manner of things from the general disdain for fisheries management that is publicly expressed almost daily, to the complete lack of any real notion as to where the government and the provincial society are going with the fisheries, and the general lack of a competent capacity in the area of fisheries policy development. These deficiencies, in a society that attaches so much importance to its fishing industry, are regrettable. It is also a hindrance to changing the current level of provincial involvement in direct management of a large part of that industry. We have commented in several earlier places that conditions are not right at this time for the province to expect any support from any quarter for an increase in its powers to manage fisheries. With the general lack of any clear articulation of government and society's intentions for the industry, it is no wonder there is such disillusionment with any suggestion for change in how the industry is managed.

We strongly believe that the Royal Commission should give serious consideration to urging the provincial government to adopt a number of specific actions to change the general malaise that exists in the present internal and external views of our approaches to fisheries management. Constant griping and transferral of responsibility are counterproductive in many ways, but especially in the raising of unrealistic expectations for solutions to the problems of the industry. Aimless debate and discussion is really only a source of added frustration that compounds the lack of specific policy directions or even aspirations. The following proposals are aimed at this broad area of such importance to this province.

Creation of a Public Capacity for Fisheries Policy

The almost complete lack of any objective and analytical capacity in the overall subject matter area of fisheries management is almost inexcusable in a province such as Newfoundland and Labrador. We refer here to the almost total absence, outside of such specialists in government organisations, of professional capabilities in fisheries biology, ecology and related physical sciences as well as in the social sciences that complement them in developing realistic expectations of fisheries policies. A major effort is needed to develop more of this capacity to objectively evaluate and understand the potential of the fisheries. This must start in the school system and continue into the secondary education system and into our degree granting and other post-secondary institutions. The ultimate aim, in this fishing province, should be to develop centres of excellence in the public policy of fishery management, similar to those found in other coastal provinces of this country.

Memorial University should be mandated to strengthen its public policy capacity in the total field of fisheries management so that it can contribute more effectively to the development of policy for the future. This capacity should be multi-disciplinary in nature covering social sciences, education, business and engineering as well as the natural fisheries sciences. We note the participation by researchers at Memorial in the Coasts under Stress project, a comprehensive project focussing upon both the Atlantic and Pacific Coasts. We note as well the Chair in Fisheries Conservation at the Marine Institute of Memorial University. These initiatives build a foundation for the enhanced role the University could play in support of conservation and stock rebuilding objectives.

Pro-active Stance on Stock Re-Building

It is time for the government and people of this province to develop a higher vision of the potential of rebuilt fisheries and ocean resources around all our shores. A pro-active approach to rebuilding key groundfish stocks, along with restoration of fisheries habitat and bio-diversity, will require a significant commitment and even some sacrifice. The current fishery, while it is producing record levels of landed values, is taking place on the basis of a depleted ocean ecosystem where there is narrower range of species than formerly. Some experts argue that fishing further down the ocean food-chain (as is the case with our large crab and shrimp fisheries) is a dangerous practice. The matter of multi-species management may be relevant here as well. However, this concept has not really passed the theoretical stage in terms of its full-fledged application to commercial fisheries. We are proposing the promotion of this multi-species eco-system approach through increasing emphasis on the factoring in of species interactions, predator-prey relationships and habitat considerations in future management measures. This would also echo the Canada *Oceans Act* approaches of ***sustainable development*** of the oceans and their resources; conservation, based on an ***ecosystem approach;*** and, the wide application of the ***precautionary approach*** to the conservation, management and exploitation of marine resources in order to protect these resources and preserve the marine environment.

All measures available to promote restoration of depleted stocks must be considered, including a planned reduction in the number of predators, particularly seals, a moratorium on capelin harvesting, and experiments to determine the impact of enhancement and recolonization.

The publicized adoption of this as a major goal of this society would focus attention nationally and internationally and give the province a renewed sense of place. This effort could engage people on many levels including public participation in defining realistic objectives of stock rebuilding with an all-party committee of the House of Assembly to lead the initiative. The mandate of such an all-party committee might include the following issues:

- What lessons can be learned from the Northern cod collapse, and those of other major groundfish stocks?
- How can we promote innovation in conflict resolution associated with the management of the fisheries?
- How can a stronger conservation ethic be promoted?
- How can women play a bigger role in building this conservation ethic?
- How can the schools play a more effective role in educating the general public on the past and future of the fishing industry?
- How can the University play a more prominent role in undertaking public policy research in defining the policy options for rebuilding stocks, restoring biodiversity and fisheries habitat and other key components of fisheries management?
- What other societal changes will support a stronger conservation ethic to promote decisions that will benefit present and future generations?

Provincial Conservation Ethic

We continue to be disappointed by the general lack of anything resembling a conservation ethic on the part of all but a small number of industry participants. It is understandable that conservation can require significant sacrifice and may be perceived in the short term not to be worth the sacrifice. On the other hand, if there is not some increased awareness of the importance of this ethic and practice soon there may not a long-term future for the fishery. Efforts to develop such an attitudinal change, while difficult initially, could become a source of provincial pride. Again, this is an initiative that needs to begin at the earliest stages: in the school system. However, it should be aimed at all parts of the populace, not just the participants in the fishing industry.

In the context of building a stronger conservation ethic there is an important role for other provincial institutions, in addition to the schools and the University. The provincial Department of Fisheries and Aquaculture can play an important policy role in building a vision of the fishery of the future. Since the moratorium, the staff and budget of the Department have been reduced to the point where many believe the Department has been relegated to a minor role in the provincial government hierarchy. Our suggestion is that the role of the Department should be reassessed to ensure that it is sufficiently empowered and staffed to advise on important public policy issues and to commission research in anticipation of major issues that are likely to arise.

Specific rebuilding targets should be developed for key stocks, such as the major coastal cod stocks and Grand Bank flounders, and such rebuilding targets should be adopted as provincial societal priorities. The Provincial Department of Fisheries and Aquaculture could play a key role in such initiatives, working with the University and DFO scientists. Our suggestion is that these three parties organize an international conference to focus attention on finding the means to accelerate the process of stock rebuilding, along with restoration of bio-diversity and fisheries habitat. For example, these efforts could include experimentation with cod re-colonization using onshore hatcheries to fertilize eggs from wild broodstock and the placement of fingerlings in environments propitious for their survival. Those invited to the conference should include fish harvesters, processing plant employees, and plant operators as well as fisheries scientists, fisheries managers and social scientists. The conference organizers should set as an objective a high level of participation by women from each of these groups.

In conclusion, we believe that the search for effective mechanisms for improved participation in fisheries management should include expanded roles for key institutions in the province, including the House of Assembly, the University and the provincial Departments of Fisheries and Aquaculture and Education.

Conclusions

This report develops a statement of objectives for fisheries policy concerning the use of, and benefits from, the fishery resources adjacent to the province of Newfoundland and Labrador along with the mechanisms to enable the province to realize these objectives through adequate participation in management regimes. In order to develop options and to make recommendations, the consultants began by examining the fisheries management system prior to Union with Canada and the changes that took place subsequently within the context of management actions taken by two governments operating independently. The consultants undertook a survey of the objectives that the two levels of government appear to have adopted over three broad post-Union periods. This survey documents a serious disconnect between the interrelated nature of the fishery policy requirements and the divided jurisdictional responsibilities to make and implement these policies. The result of this disconnect is a dramatic failure of fisheries policy, resulting in the collapse of groundfish and other stocks and the precarious present dependence of the province's fishing industry upon two shellfish species. One of these is abundant (shrimp) but its contributions to margins are low, while the other (snow crab) is declining in abundance but its better margins have created a high measure of dependence.

The report also proposes a new set of policy objectives for management of the fishing industry. These would place first priority on conservation while also providing for a balanced and viable industry that respects the rights of First Nations and of people in adjacent fishing communities. They provide a greater place for the values and aspirations of women participants. This industry would have a level of overall participation that provides for competitive enterprises producing reasonable levels of incomes and overall returns. It would not be a rent maximizing industry but one that provides for a wider range of socially desired values without ongoing operating or capital subsidies. The report recommends that evolution of rights-based management systems continue, subject to appropriate safeguards.

The strengths and weaknesses of the existing management regime and division of powers has been assessed, leading to the conclusion that major changes are required to integrate policy decisions and to achieve policy coordination. The consultants conclude that the climate currently is not favourable for constitutional change, notwithstanding the compelling case for a realignment of fisheries management powers. Instead, they recommend firstly that a joint, federal-provincial policy board be established which would examine the current state of fisheries management and establish stock rebuilding goals for all major stocks, along with measures for restoration of the fisheries habitat and eco-system to the level which prevailed before massive overfishing of major groundfish stocks took place. The consultants recommend to the policy board a major restructuring of fisheries management, with the creation of a federal Atlantic Fisheries Management Commission, a joint Canada/Newfoundland and Labrador Licensing and Allocations Authority, along with a joint federal-provincial policy board.

This report also recommends institutional changes within the province to build a strong conservation ethic. These recommendations call upon action to be taken by the House of Assembly, being the highest deliberative body in the province, by the primary and secondary school system, by the University, by the provincial Department of Fisheries and Aquaculture and by fish harvesters. The consultants recommend that women be given a greater voice in all fisheries management functions, in recognition of their commitment to the industry and the potential contribution that they can make.

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[137] It should be noted that the principle of equal access is likely to be highly controversial in the context of the fishery of Newfoundland and Labrador.

[138] Ibid. p. 250.

[139] An in-between arrangement would involve amending the Fisheries Act to include the basis on which the Minister must set the annual allowable catches. This would set the basis of TAC setting clearly in law.

[140] The two main decisions on Northern shrimp allocations of recent years are illustrative. In 1997, a new allocation arrangement was introduced in this fishery after a public call for proposals on sharing and significant consultations on that input. This gave most of the TAC increases in 2J3K to under 65 ft. vessels from 2J3KL and 4RS with little or no public outcry throughout the Atlantic. On the other hand, the allocation of shrimp to PEI interests from Canada's NAFO allocation in 3L drew the highest level of political and public criticism in this province. This reaction was the main reason for establishing the Independent Panel on Access Criteria.

[141] One of the authors of this paper, David Vardy, was the chair of the inshore shrimp panel that reported to the Minister of Fisheries and Aquaculture on the Cooked and Peeled Shrimp Industry.

[142] The federal Fish Inspection Act (and hence its Inspectors) was never considered a vehicle to control the size of the processing sector, possibly because this was seen as a provincial sphere of authority since the (BC) Fish Canneries Reference of 1930.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Policy Options For the Management and Conservation of Straddling Fisheries Resources

— Phillip M. Saunders

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 183
The Scope and Nature of the Problem 183
  Status and Functions of NAFO 184
  The Foreign Fishing Issue 186
  Fisheries Jurisdiction Under the Law of the Sea 187
  Canadian Actions Of 1994/1995 190
  The UNFA 191
  Other Instruments and Programmes 193
  The Resurfacing of NAFO Problems 193
Objectives 193
Options for the Future 195
  Status Quo 195
  Extension of Canada's EEZ 195
  Sedentary Species Management 197
  Custodial Management 198
  Renewal and Adaptation Within NAFO 202
Conclusions and Recommendations 205

Endnotes 207
Appendix A *Selected Provisions – 1982 United Nations Convention on the Law of the Sea* 213
Appendix B *Selected Provisions – 1995 United Nations Fish Stocks Agreement (UNFA)* 219
Appendix C *Compulsory Dispute Settlement: UNFA and LOS 1982* 227

Introduction

The continuing problem of over-fishing and inadequately regulated fishing for stocks which straddle the outer limits of Canada's 200 nautical mile (M) Exclusive Economic Zone (EEZ) remains a focus of concern for the Government of Newfoundland and Labrador, and for communities and fishing industry representatives. The perception, backed up by the experience of provincial, federal and industry participants at the international level,[1] is that the current management regime under the Northwest Atlantic Fisheries Organization (NAFO) has simply failed to fully address the continued mismanagement of critical stocks, with negative impacts both within and outside the 200 M limit.

There have been varying responses to this perceived problem, the most ambitious of which have called for the extension of some form of Canadian jurisdiction beyond 200 M, whether through declaration of a Canadian EEZ over the area of the continental shelf (including, potentially, the Nose and Tail of the Bank and the Flemish Cap), or some lesser form of jurisdiction such as "custodial management".[2] Alternatively, it has been suggested that Canada should work within existing international structures, notably NAFO and the United Nations Fishing Agreement (UNFA),[3] to improve the effectiveness, and particularly the enforceability, of the management regime outside 200 M. This paper considers the viability and potential impacts of the main policy options available to Canada and Newfoundland and Labrador, and makes recommendations for a future course of action. Prior to any consideration of options for the future, however, it is essential to review the nature of the current management problems, and of the legal structures that underlie those difficulties.

The Scope and Nature of the Problem

Fish stocks off the East Coast of Canada can be seen as falling within four categories for the purposes of this review:

- Stocks within Canada's 200 M EEZ, for which Canada exercises full management authority;
- Stocks which are fully outside 200 M and which are either regulated by NAFO, or remain unregulated (except to the extent that they are regulated by flag states);
- Sedentary species (such as Icelandic scallops and snow crab) beyond 200 M but on Canada's extended continental shelf, which are within Canada's jurisdiction;[4]
- Stocks which "straddle" the 200 M limit, and which are subject to management measures both by agreement under NAFO, and within the Canadian EEZ.

It is this final category of straddling stocks which is the focus of this paper, although reference will be made where necessary to the management implications of jurisdiction over sedentary species on the extended continental shelf. Table 1 shows the straddling and "discrete" high seas stocks currently subject to NAFO management, and summarizes quotas and other management measures in place in 2002.[5]

Table 1: NAFO Regulated Stocks

Straddling Stocks:	**Discrete Stocks:**
• 3NO Cod (moratorium since 1995)	• 3M Cod (moratorium since 1999)
• 3LN Redfish (moratorium since 1998)	• 3M Redfish (TAC — 5,000t)
• 3LNO American plaice (moratorium since 1995)	• 3M American Plaice (moratorium since 1996)
• 3LNO Yellowtail (TAC — 13,000t)	• 3M Shrimp (Effort regulation since 1997)
• 3NO Witch (moratorium since 1995)	
• 3NO Capelin (moratorium since 1993)	
• 2+3KLMNO Greenland halibut (TAC — 40,000t — 29,640t Regulatory Area)*	
• 3+4 Squid (TAC — 34,000t)	
• 3L Shrimp (as of 2000) (TAC — 6,000t)	

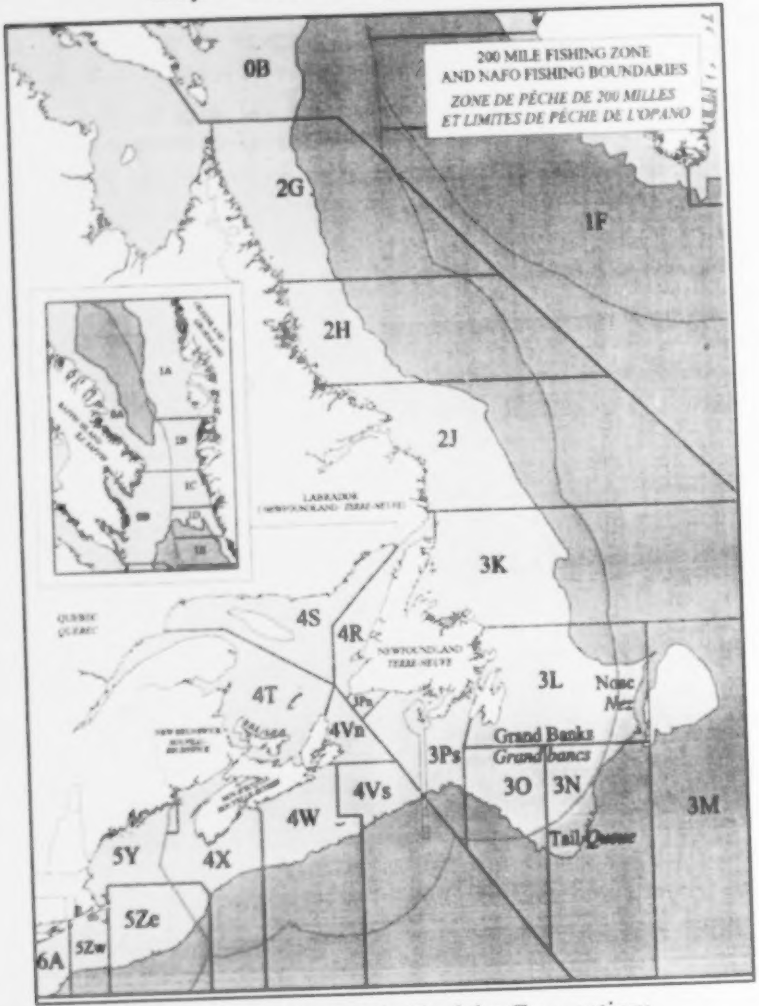
Source: DFO/NAFO, as reproduced in *Standing Committee Report*, at p.20.

* Increased to 44,000t at the NAFO Fisheries Commission Special Meeting in January 2002.

Status and Functions of NAFO

NAFO is an international organization with 17 members, including Canada and the European Union (EU). It was established by treaty (the NAFO Convention) in 1979,[6] and operates within the NAFO Regulatory Area, as shown in Map 1 below.

Map 1 - NAFO Regulatory Area[7]


200 MILE FISHING ZONE AND NAFO FISHING BOUNDARIES
ZONE DE PÊCHE DE 200 MILLES ET LIMITES DE PÊCHE DE L'OPANO
0B
2G
1F
2H
2J
LABRADOR
3K
QUEBEC
4S
4R
NEWFOUNDLAND
TERRE-NEUVE
3L
Nose
Nez
4T
3Pn
4Vn
Grand Banks
Grand bancs
3Ps
3O
3N
4Vs
3M
4W
Tail
Queue
5Y
4X
5Ze
5Zw
6A

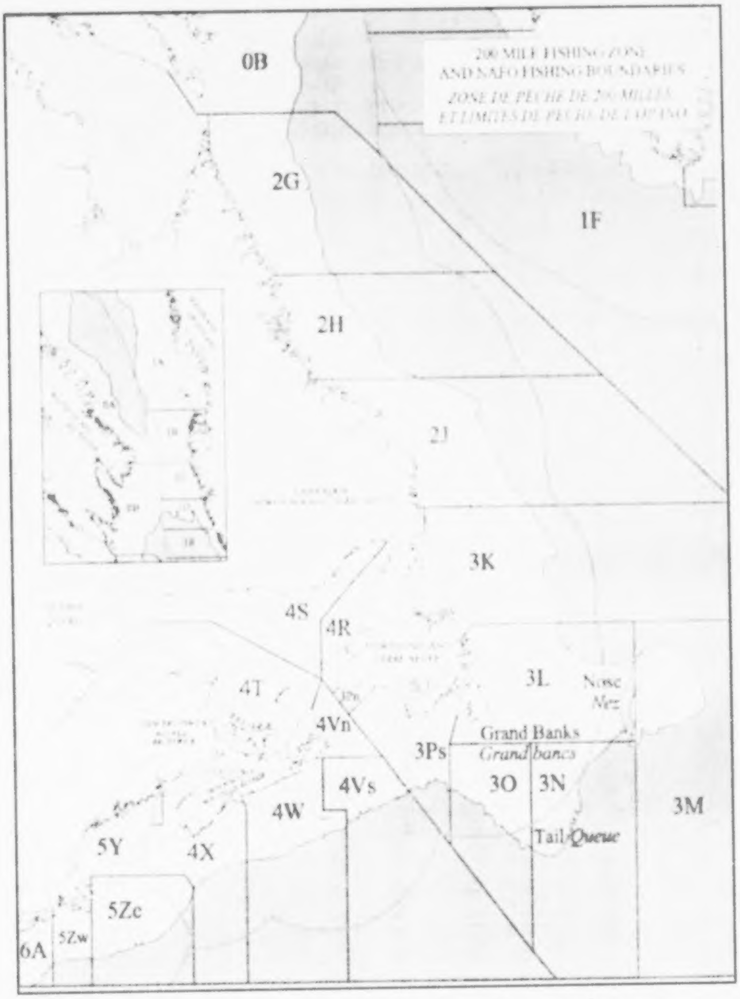
NAFO's general objectives are stated in Article II of the Convention:

> The Contracting Parties agree to establish and maintain an international organization whose object shall be to contribute through consultation and cooperation to the optimum utilization, rational management and conservation of the fishery resources of the Convention Area.

Through its constituent parts (the General Council, the Scientific Council, the Fisheries Commission and the Secretariat), the organization carries out a number of management functions:

- The conduct of stock assessments based on scientific data, and the establishment of stock-by-stock Total Allowable Catches (TACs);
- The allocation of quotas to the parties to the Convention;
- The prescription of conservation management measures, including, *inter alia*, minimum fish or mesh sizes, bycatch criteria, and species moratoria;

Map 1 - NAFO Regulatory Area[7]


200 MILE FISHING ZONE AND NAFO FISHING BOUNDARIES
ZONE DE PECHE DE 200 MILLES ET LIMITES DE PECHE DE L'OPANO
0B
2G
1F
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2J
3K
4S
4R
4T
3L
Nose
Nez
3Pn
4Vn
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- The prescription of conservation management measures, including, *inter alia*, minimum fish or mesh sizes, bycatch criteria, and species moratoria;

- Under the Joint International Inspection and Surveillance system, conducts surveillance, coordination of inspections, observer and other monitoring programmes and dockside inspections.[8]

The Foreign Fishing Issue

What is often termed the "problem of foreign overfishing" for NAFO-regulated stocks is in fact a shorthand for a range of problems that have, over many years, been identified with the organization and the implementation of its mandate. These might be summarized in general terms as follow:

- The presence of unregulated vessels from non-NAFO states, operating outside any NAFO controls;[9]
- A failure to adhere to the best available scientific advice in the adoption of management measures. This includes, but is not limited to, perceived misuse of NAFO's objection procedures in the setting of quotas, which allows unilateral disregard of allocations;
- Serious gaps in enforcement, which is based largely on flag state control, with some fishing states being willing to countenance routine violations of agreed management measures (including quotas, species moratoria and gear restrictions, and late or non-submission of reports);
- The growing use of bycatch allowances to mask directed fisheries for prohibited species.[10]

The impact of these failings on Canadian stocks and the fishing industry is seen as operating in two main ways. First, the abuse of fishing rights beyond 200 M has the direct impact of denying or limiting fair access to those stocks for Canadian fishers. Second, it is argued that the interrelationship of stocks is such that the failure of management measures outside 200 M has the additional impact of delaying or preventing the recovery of stocks inside 200 M, blunting the effect of stricter management measures taken in the Canadian zone. These impacts may be difficult to quantify, but for the purposes of this review it is accepted that the conclusions of many observers, and of the Standing Committee on Fisheries and Oceans, are correct: a failure to properly and effectively regulate beyond 200 M will inevitably have some negative effect on the Canadian industry inside and outside the EEZ.

It must be remembered as well that the problem of straddling stocks in the Northwest Atlantic is a manifestation of a broader international phenomenon,[11] one which is rooted in the current structure of the international Law of the Sea. In order to properly understand the nature of the current problems off the East Coast of Canada, and thus to assess options for future action on those problems, it is necessary to briefly consider how and why we came to where we are now.

Fisheries Jurisdiction Under the Law of the Sea

Prior to the widespread adoption of extended fisheries zones in the 1960s and 1970s, fishing beyond the narrow belt of the territorial sea was generally considered to be a freedom of the high seas.[12] Canada, consistent with the practice of many states, extended its jurisdiction over fisheries to 200 M in 1977. The nature of coastal state jurisdiction had, however, continued to evolve, both in state practice and in the negotiations at the Third United Nations Conference on the Law of the Sea (UNCLOS III), ultimately coalescing around the broader, multipurpose zone concept of the EEZ, as reflected in the 1982 United Nations Convention on the Law of the Sea (LOS 1982),[13] and claimed as a jurisdictional zone by Canada in the Ocean Act of 1996.[14]

Under the LOS 1982, and under customary international law, coastal states are entitled to claim an EEZ extending to 200 M from the baselines from which the territorial sea is measured. Within this zone, the coastal state has comprehensive jurisdiction over living and non-living resources of the seabed and water column, as expressed in Article 56 (1) (a):

> 1. In the exclusive economic zone, the coastal State has:
>
> (a) sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil…

These rights are accompanied by a number of obligations, including, inter alia, the following: [15]

- An obligation to exercise coastal state rights with "due regard to the rights and duties of other states" ;
- Obligations to use "proper conservation and management measures" to ensure that living resources in the zone are not "endangered by over-exploitation";
- With respect to the conservation and management of stocks, an obligation to "cooperate to this end" through international organizations;
- Obligations to promote the objective of optimum utilization of resources and, where the coastal state does not have the capacity to harvest its total allowable catch (TAC), to give other states access to the surplus (subject to management restrictions).

In sum, the LOS 1982 created a structure of rights and responsibilities within the EEZ, based on coastal state sovereign rights, but not sovereignty. The practical effect of this jurisdiction, insofar as it applied to fisheries, was to give full management authority to the coastal state. At the other extreme, fisheries located beyond the limits of national jurisdiction were left largely to the regime of the high seas. Fishing is clearly a high seas freedom, open to all states and subject to flag state jurisdiction. This freedom is, however, subject to a number of quite general duties on the flag state:[16]

- High seas rights are to be exercised with due regard for the interests of other states in their own exercise of high seas freedoms;
- The right to fish is "subject to" the "rights and duties as well as the interests of coastal states", as provided for under the *LOS 1982;*

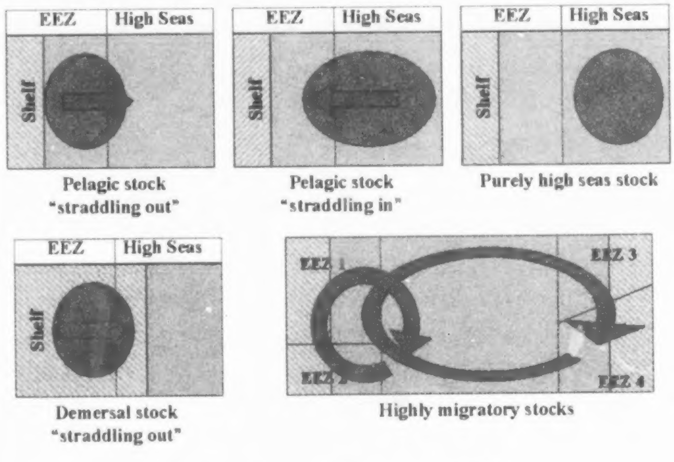
- Flag states have a duty to "take, or co-operate with other states in taking, such measures for their respective nationals as may be necessary for the conservation of the living resources of the high seas";
- States are under a duty to co-operate in the conservation and management of high seas living resources, and to "co-operate to establish subregional or regional fisheries organizations to this end".

Beyond the general high seas duties noted above, the LOS 1982 also addressed instances of intersection between national jurisdiction and high seas freedom, including highly migratory, anadromous and catadromous species.[17] With respect to straddling stocks, the relevant provision is Article 63 (2):

> Where the same stock or stocks of associated species occur both within the exclusive economic zone and in an area beyond and adjacent to the zone, the coastal state and the states fishing for such stocks in the adjacent area shall seek, either directly or through appropriate subregional or regional organizations, to agree upon the measures necessary for the conservation of these stocks in the adjacent area.

There are several features of this provision that should be noted. First, the definition of straddling stocks is quite broad, extending as it does to "associated species", and it would clearly apply to a number of stocks off the East Coast (see below re – relevant NAFO stocks). Figure 1 graphically portrays the various potential types of high seas, highly migratory and straddling stocks.

Figure 1



Pelagic stock "straddling out"

Pelagic stock "straddling in"

Purely high seas stock

Demersal stock "straddling out"

Highly migratory stocks

Types of high seas stocks

Source: FAO Fisheries Department[18]

Second, it should be noted that it is not certain whether Art. 63(2) has the status of customary international law, reciprocally binding on parties and non-parties (such as Canada) to the LOS

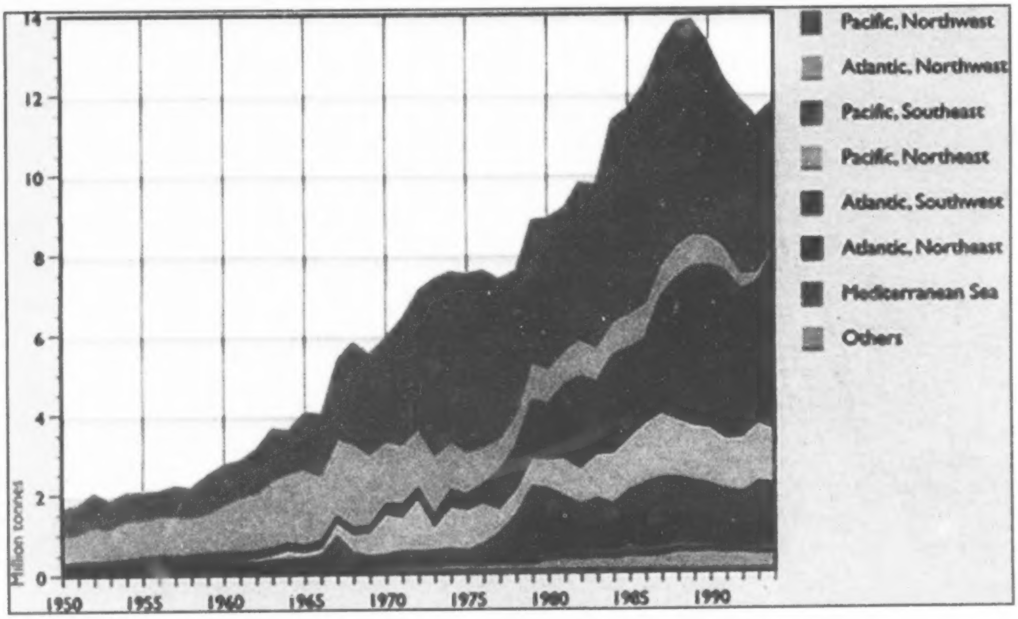
1982. However, given the further developments under the UNFA, and Canada's status as a party to that agreement, it is assumed for the purposes of this review that Art. 63(2) is an accurate statement of the applicable law.

Even if it is accepted that this provision represents customary international law and that numerous Canadian stocks are included in the definition, however, there are far greater difficulties to be found in the practical implementation of the obligations as stated. Numerous observers have pointed to the fact that states must only "seek" to agree upon management measures – there are no time limits for agreement; there is no requirement for resort to regional organizations; and, most significant, there is no explicit enforcement power which would enable a coastal state or regional organization to deal independently with violators.[19] The default position is flag state enforcement against private violators, with normal avenues of negotiation and dispute resolution available to deal with states in breach of these very general duties.

The ambiguity of obligations to "co-operate" and "seek to agree", coupled with the absence of any authoritative compliance mechanism (whether by coastal state enforcement or multilateral action), left the management of straddling stocks as "the 'unfinished business' of UNCLOS III";[20] a case in which there was a failure to "...adequately define an allocation of jurisdictional competence...".21

This problem was certainly identified at UNCLOS III, but it was not possible to reach agreement on anything more explicit, or with more enforcement teeth.[22] By the early 1990s, the concerns of coastal states about the perceived gap in authority had been confirmed in reality, especially given the fact that Distant Water Fishing Nations (DWFNs) were increasingly being excluded from former areas of high seas now brought within EEZs. Figure 2 shows the clear trend, repeated across a number of regions, of increased catches from identified straddling stocks in the period from the 1970s to the early 1990s.

Figure 2: Landings From Straddling Stocks By Region



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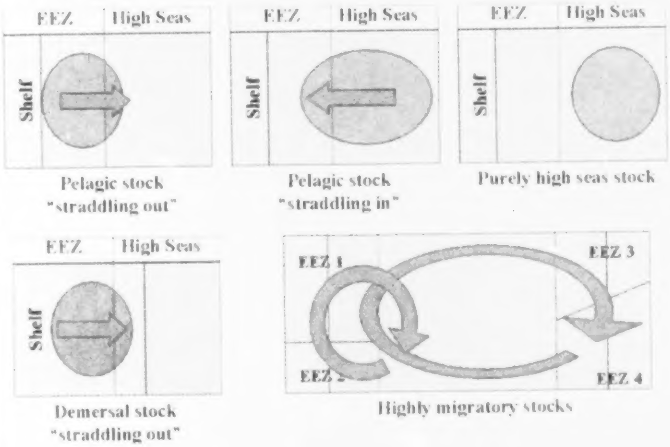
EEZ
High Seas
Shelf
Pelagic stock "straddling out"
EEZ
High Seas
Shelf
Pelagic stock "straddling in"
EEZ
High Seas
Shelf
Purely high seas stock
EEZ
High Seas
Shelf
Demersal stock "straddling out"
EEZ 1
EEZ 3
EEZ 2
EEZ 4
Highly migratory stocks

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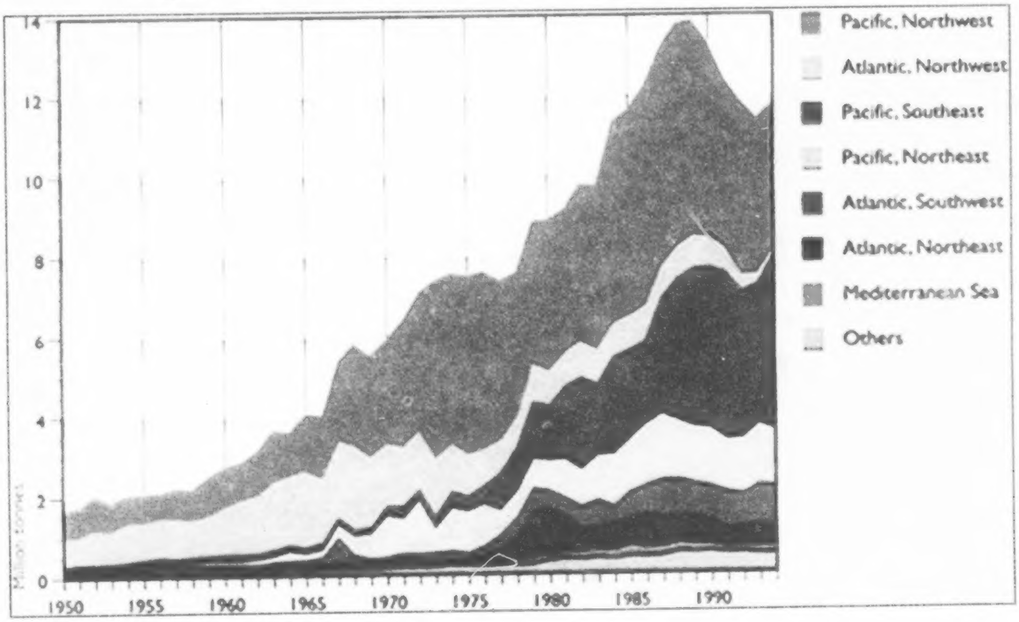
Even if it is accepted that this provision represents customary international law and that numerous Canadian stocks are included in the definition, however, there are far greater difficulties to be found in the practical implementation of the obligations as stated. Numerous observers have pointed to the fact that states must only "seek" to agree upon management measures – there are no time limits for agreement; there is no requirement for resort to regional organizations; and, most significant, there is no explicit enforcement power which would enable a coastal state or regional organization to deal independently with violators.[19] The default position is flag state enforcement against private violators, with normal avenues of negotiation and dispute resolution available to deal with states in breach of these very general duties.

The ambiguity of obligations to "co-operate" and "seek to agree", coupled with the absence of any authoritative compliance mechanism (whether by coastal state enforcement or multilateral action), left the management of straddling stocks as "the 'unfinished business' of UNCLOS III";[20] a case in which there was a failure to "...adequately define an allocation of jurisdictional competence...".21

This problem was certainly identified at UNCLOS III, but it was not possible to reach agreement on anything more explicit, or with more enforcement teeth.[22] By the early 1990s, the concerns of coastal states about the perceived gap in authority had been confirmed in reality, especially given the fact that Distant Water Fishing Nations (DWFNs) were increasingly being excluded from former areas of high seas now brought within EEZs. Figure 2 shows the clear trend, repeated across a number of regions, of increased catches from identified straddling stocks in the period from the 1970s to the early 1990s.

Figure 2: Landings From Straddling Stocks By Region



Source: FAO (1996)[23]

At the United Nations Conference on Environment and Development (UNCED) in 1992, it was felt that the post-UNCLOS period had resulted in a failure of management efforts respecting valuable straddling stocks, in some cases due to complete lack of cooperation, and in others to the ineffectiveness of cooperation measures, especially on enforcement. The problems with management of straddling stocks were additionally linked to the depletion of fisheries within 200 M, through the undermining of management within EEZs by poorly regulated fishing outside. The perceived difficulties in the implementation of the regime led directly to a number of regional and global initiatives in the 1990s, including the United Nations Conference on Straddling Fish Stocks and Highly Migratory Fish Stocks[24] and the Canadian actions in the so-called "turbot war" in 1994/95.

Canadian Actions Of 1994/1995

The various failings of the NAFO system, as discussed above, came to a head in the Canada-EU dispute of 1994/95. The background to this dispute is well-known, and does not require a detailed recounting here. In the view of Canada, NAFO, for the reasons suggested above, had been ineffective in preventing the mismanagement and depletion of some straddling stocks within the Regulatory Area, with negative effects inside the Canadian Exclusive Fishing Zone (EFZ – under the Oceans Act replaced by the EEZ). The combined effect of these failings and increasingly strong conservation measures within Canadian waters after 1992 led to a number of actions on the part of the Canadian government.[25]

In May of 1994 Canada amended the Coastal Fisheries Protection Act to allow enforcement of NAFO regulations against stateless vessels and some flag of convenience vessels registered in non-NAFO states,[26] and in March 1995 regulations under this Act were amended to cover Spanish and Portuguese vessels.[27] The enforcement action against the Spanish vessel Estai followed soon after.[28] The immediate dispute was resolved by the conclusion of an agreement between Canada and the EU in April 1995, and the main provisions of that agreement were adopted by NAFO in September 1995.[29] In addition to settling the specific quota allocations in dispute, the Canada-EU settlement provided as follows:

- Expansion of inspection capabilities;
- Creation of a class of "major infringements" (such as refusal to cooperate with inspectors and misreporting of catches), which would trigger certain duties related to enforcement;
- Implementation of a 100 per cent on-board observer programme (on a pilot basis);
- Introduction of some satellite tracking coverage;
- Enhanced transparency in flag state enforcement, including improved reporting of numbers and types of violations.

The long-term impact of the steps taken within NAFO is considered below, but to the extent that the resolution of this dispute was regarded as a success for Canada, and thus a possible model for future actions, it is useful to note two general characteristics of the 1994/

1995 dispute and the outcomes that resulted from it. First, although Canada's actions have been portrayed as essentially unilateral, it must be remembered that these steps were also closely tied to the structure of NAFO. The prohibitions in the Coastal Fisheries Protection Act were directly related to prescribed NAFO management measures, giving Canada's unilateral enforcement action a substantive basis in rules agreed at a multilateral level. As one observer has noted, this clearly added to the legitimacy of the Canadian actions:

> It is quite possible that Canada's unilateral enforcement efforts would not have been successful without the presence of NAFO and without Canadian policymakers' decision to use this presence to their advantage. Far from being a simple case of brute force, Canada's was a fairly nuanced foreign policy that was sensitive to the international institutional context. Throughout all levels of Canada's sanctioning process the existence of NAFO and its various regulations legitimized certain enforcement actions …In enforcing these multilateral rules, Canada was acting in accordance with international norms - and against a state that was not.[30]

Second, it should be noted that throughout this dispute Canada pursued its objectives, not just through unilateral action, but by a number of means, at a number of levels and through a number of processes in parallel. During and after the events of 1994/1995, Canada acted unilaterally to assert its jurisdiction (through the rationalization of jurisdictional zones in the Oceans Act). At the same time, Canada operated at the bilateral (Canada-EU) and regional (NAFO) levels to pursue its objectives for improved management of straddling stocks within its own area of concern. These bilateral and regional measures, in turn, fed into the global initiative for enhancement and revision of the legal regime for straddling stocks, which is addressed below.[31]

The *UNFA*

The *United Nations Fishing Agreement*, which came into force in Dec. 2001, represents the most significant advance on the straddling stocks issue at the global level since the LOS 1982. A detailed review of this Agreement is beyond the scope of this paper, and there are numerous analyses available.[33] The purpose here is to outline the broad scope of the Agreement's provisions, particularly as they relate to the question of options for the future.

An essential element of the structure of UNFA is its interrelationship with the LOS 1982. The Agreement is intended to fall within the structure of the LOS Convention, as is emphasized in Article 2, which refers to the objective of the Agreement as ensuring "the long-term conservation and sustainable use of straddling stocks and highly migratory fish stocks through effective implementation of the relevant provisions of the Convention." Article 4 also notes that nothing in the Agreement "shall prejudice the rights, jurisdiction and duties of states under the Convention," and that it "shall be interpreted and applied in the context of and in a manner consistent with the Convention.". All of this makes it clear that the UNFA is meant to operate within the jurisdictional regime established at UNCLOS III, and to reinforce and define the "duty to cooperate" set out in the LOS 1982.

A central thrust of the substantive provisions of UNFA is to better define the role and purpose of regional fisheries organizations. In brief, where an organization or "arrangement" exists which "has the competence to establish conservation and management measures for a particular straddling stock," states are to give effect to their duty to cooperate by joining the organization or arrangement, or by applying the management measures it establishes.[34] Where such institutions are in place, their members, and those who abide by the rules, should have exclusive access as among UNFA parties.

With respect to the perennial problem of compliance and enforcement with rules established by competent organizations, UNFA offers limited progress. Primary reliance is still placed upon flag state enforcement,[35] but some limited provision is made for "international cooperation" in enforcement. Provision is made for member states of regional organizations to board and inspect vessels of states party to the UNFA, and (under exceptional circumstances), to compel the vessel to proceed to port.[36] In addition, the Agreement gives a broader authority to port states to take measures, including inspection and prohibition of landings and transshipment, to "promote the effectiveness of subregional, regional and global conservation measures" with respect to vessels which are voluntarily in its "ports or offshore terminals".[37]

While direct enforcement against foreign vessels would still be very much the exception under UNFA, leaving doubt as to the effectiveness of its compliance mechanisms, there are more substantial improvements in the provisions for calling states to account for failures to fulfill their obligations under multilateral arrangements. Part VIII of UNFA provides for a system of dispute resolution, with two innovations being particularly significant. First, the compulsory dispute settlement provisions of the LOS 1982 are applied both to the interpretation and application of UNFA itself, and to disputes between UNFA parties with respect to other agreements relating to straddling stocks to which they are also parties.[38] Furthermore, this will be the case whether or not the states involved are parties to LOS 1982.[39] Given the lack of any objective dispute settlement system within NAFO, this represents a major advance where both disputing states are parties to UNFA (see below for further discussion).

The second major contribution of UNFA to dispute settlement as applied to straddling stocks relates to the issue of applicable law. Courts or tribunals adjudicating these disputes are to apply the provisions of LOS 1982, UNFA and the "other" agreements (such as NAFO), but are also to use "generally accepted standards for the conservation and management of living resources" and act "with a view to ensuring conservation."[40] This broad language sends a strong signal, and opens the possibility of much more creative, litigation-based approaches to the development and application of management principles.

With respect to the issue of management principles, the UNFA does call for enhanced application of such concepts as precaution, sustainability and integration. Furthermore , Article 7 requires that coastal states and fishing states shall ensure the "compatibility" of measures taken inside and outside national jurisdiction, a long-standing issue in NAFO.[41] Article 5 requires that states implement a number of principles "in giving effect to their duty to cooperate", including adoption of measures to "ensure long-term sustainability" and "promote the objective" of optimum utilization, and application of "the precautionary approach in accordance with article 6".[42]

Other Instruments and Programmes

In 1995 FAO adopted the non-binding Code of Conduct for Responsible Fisheries,[43] which set out "principles and international standards of behaviour for responsible practices with a view to ensuring the effective conservation, management and development of living aquatic resources."[44] The Code has led to the development of a number of International Plans of Action (IPOAs) on specific issue areas, including the voluntary International Plan Of Action To Prevent, Deter And Eliminate Illegal, Unreported And Unregulated (IUU) Fishing[45]. This plan provides a series of objectives and principles to be adhered to in dealing with IUU fishing inside and outside national jurisdiction. Finally, the particular problem of high seas fishing is addressed, again within the framework of the Code of Conduct, in the Agreement to Promote Compliance with International Conservation and Management Measures by Fishing Vessels on the High Seas.[46] This agreement, which becomes binding upon its acceptance by 25 parties,[47] sets out a number of standards for flag state responsibility for high seas fishing, including requirements for information exchange and international cooperation.

All of these documents, and particularly the Compliance Agreement, represent significant contributions to the global effort to deal with IUU fishing, including that directed at straddling stocks. While they should be carefully considered in the development of Canada's position in NAFO (given Canada's support and adherence to them), the more significant legal instruments at the regional level will continue to be the NAFO Convention and the UNFA, both of which are more directed efforts at implementing the same general principles.

The Resurfacing of NAFO Problems

There is a general consensus that in the period following the Canada-EU Agreement and the signing of the UNFA, the situation in NAFO, particularly with respect to enforcement, improved to some degree. However, testimony before the Standing Committee on Fisheries and Oceans in 2002 indicated that there has been a growing tendency towards increased violations (particularly on the bycatch issue), lax enforcement and a renewed use of the objection procedure to avoid management measures (though not by the EU). In general, the Committee found, and it is well-supported by the evidence available, that the gains of the immediate post-1995 period have been reversed to some extent, and that fundamental problems remain in the effectiveness of the NAFO system.

Objectives

In order to assess the various options for future management of straddling stocks outside the Canadian EEZ, it is essential that we have a clear idea of the intended objective. It is clearly not enough to state that Canada needs, or wants, an enhanced level of legal jurisdiction. Any fisheries management system comprises a number of essential components, including scientific knowledge, management principles and practical measures, monitoring/surveillance and enforcement capability and jurisdictional competence. Jurisdiction is a means – the end must be sound management. Still, while jurisdiction in isolation does not guarantee sound management, there must be some body (whether coastal state or multilateral organization) that has the power to establish and implement management measures. The Standing Committee of Fisheries and Oceans described the ultimate objective as follows:[48]

> Clearly, what is required is a comprehensive, conservation-based fisheries management regime outside the 200-mile limit that is as rigorous as that inside the 200-mile limit.

Similar language was used in the 2003 Report of the Newfoundland and Labrador All Party Committee, but with an added emphasis on the need for improved management principles, going beyond traditional stock-based management:[49]

> Scientific research and fisheries management must move toward a multi-species approach (i.e. an ecosystem approach) as opposed to the current single species approach.

If these statements are considered in the light of the history of problems with NAFO, and with the general experience with straddling stocks world-wide, it is possible to identify three components for Canadian objectives for improved management of straddling stocks:

- First, the system must be comprehensive, in that compatibility between measures inside and outside must be achieved. Furthermore, it must be able to deal both with NAFO participants and the more general problem of IUU fishing.
- Second, the system must be enforceable, or else it cannot be "rigorous". In this context enforceability includes ability to prevent and punish violations, but also the ability to ensure that states live up to their responsibilities to deal with their own flag vessels appropriately.
- Third, the system should go beyond ensuring that existing measures are both rigorously and consistently applied, and incorporate the most advanced management principles possible (as reflected in the recommendations of the All Party Committee). In short, the more effective application of ineffective management approaches is unlikely to achieve the desired results.

The following section considers some of the main options for future action which have been suggested, and attempts to assess them within the framework of these criteria. Of the legal options that have been put forward, which offer the most realistic prospect of moving in the directions set out above?

Options for the Future

Status Quo

The simple continuation of the present situation, into the indefinite future, does not appear to be a serious option at this point. The results obtained under the current system, and the widespread dissatisfaction with it within Canada, are enough to make "business as usual" an unsustainable course, both managerially and politically. This view is reinforced when one considers the growing pressure on high seas stocks at the global level, and the need to react to the new management rights and duties under the UNFA. The legal structure for management of these stocks has been fundamentally altered, in part by the endorsement of new cooperative arrangements, but also by the introduction of new, conservation-based management principles, as discussed above. Standing still, when the international community has clearly moved on, is not a realistic choice.

Extension of Canada's EEZ

One suggestion that has been put forward is the extension of the Canadian EEZ beyond 200 M, possibly over the entire extent of the Canadian continental shelf. There are a number of difficulties with this proposal that make it a highly unlikely, and possibly counterproductive, course of action.

To begin, an extension of an "EEZ" to areas beyond 200 M carries with it more than fisheries jurisdiction – Canada would be asserting sovereign rights and jurisdictional control over a range of activities and resources unrelated to control of fishing activity. Such a broad assertion of jurisdiction would clearly be seen as unnecessary to the stated objectives set out above. Furthermore, within the fisheries context, an extension to the limits of the continental shelf would encompass high seas fisheries stocks which are not straddling stocks, and for which the legitimacy of Canadian control would be highly suspect. These obvious difficulties could, of course, be addressed by restricting Canada's action to a more limited unilateral assertion of jurisdiction. Canada could, for example, declare a simple "fishing zone"[50] beyond 200 M, of a geographic scope sufficient to cover all relevant straddling stocks. Such a declaration could be further limited in its effect to apply only to designated straddling stocks.

Even if we assume, however, that the jurisdictional claim was limited in this way, there would still be serious problems arising from any claim that purported to give Canada full jurisdiction over these stocks – for everything from carrying out the science through to enforcing against violators. In particular, a claim of this type would presumably bring with it the power to assign both the amounts and allocations of catch, and to limit those allocations (except for any identified surplus) to the Canadian industry, as a matter of sovereign entitlement. The benefits of such a move to the Canadian industry and the communities that depend on it need hardly be stated; although not on a scale of the potential resource access gained by the original extension of jurisdiction in 1977, the incremental gain for Canadian (and especially Newfoundland and Labrador) interests would be huge.

Feasibility and Legality

Unfortunately, the realization of these benefits would depend on Canada's ability to carry off such an extension of its jurisdiction, and for a number of reasons this must be regarded as improbable. First, it would be simply unrealistic to expect any significant degree of international support for this new expansion of coastal state jurisdiction. The jurisdictional architecture of the LOS 1982 was the product of long, difficult global negotiations that saw a large-scale compromise between the interests of expansionist coastal states, on the one hand, and maritime (including DWFN) states on the other. The EEZ, limited to 200 M, was a keystone of the structure that made agreement possible; it represented a compromise both on the nature of jurisdiction (being more functionally limited than the quasi-territorial claims of some states), and on the spatial extent (being less extensive than the wider broad-shelf claims).

The significance of the EEZ regime has been enhanced in the years since the adoption of the LOS 1982 and its coming into force in 1994. In state practice, the vast majority of states limit their jurisdictional claims to the type and extent set out in the Convention, with claims to the seabed and water column limited to 200 M, and seabed claims extending beyond (as permitted under the formula of Article 76 of the LOS 1982). This practice extends even to non-parties to the LOS 1982, including Canada and (critically) the United States. There is no doubt that a Canadian attempt to extend jurisdiction in this fashion would be regarded as a violation of international law. Moreover, there is at present no evidence of a widespread willingness among states to re-visit the fundamental nature of the jurisdictional allocations set out in the LOS 1982 regime.

The fact that it would be a violation of international law does not necessarily mean that Canada should not consider this option, but this consideration must be realistic. In the absence of widespread international interest in a further evolution of the jurisdictional regime, Canada must expect to take this stand without any broad support, and in the face of significant active opposition from fishing states. Is Canada willing, or able, to enforce its will, contrary to established international law, over the wide area of the NAFO Regulatory Area? How far is it willing to take this assertion of jurisdiction in an eventual confrontation? It should also be noted that an assertion of jurisdiction which failed in the face of determined opposition would potentially leave Canada in a weaker position, eliminating any remaining credibility of the threat to extend jurisdiction, should it be used for leverage in negotiations.

The House of Commons Standing Committee on Fisheries and Oceans considered the question of EEZ extension, and summarized the difficulties as follow: 51

> "First, there is no international support for the unilateral extension of EEZs;
>
> Second, unilateral extension would be contrary to the international fisheries priorities Canada has pursued since the establishment of modern EEZs;
>
> Third, repudiation of a tenet as fundamental to UNCLOS as the 200-mile EEZ would make it very difficult for Canada to fully partake in the rights, duties and organizations the Convention creates; and,
>
> Finally, unilateral extension of the EEZ would practically guarantee a drawn out and expensive legal challenge against Canada with a significant risk that Canada would lose."

On this last point, it might more accurately be argued that there would be an extremely high likelihood, not a "risk", of a Canadian loss should litigation occur. It should also be noted that Canada's 1994 reservation to the compulsory jurisdiction of the International Court of Justice (ICJ), dealing with certain fisheries issues, was phrased to apply to "conservation and management measures" taken in the NAFO regulatory area:[52]

> ...d) disputes arising out of or concerning conservation and management measures taken by Canada with respect to vessels fishing in the NAFO Regulatory Area, as defined in the Convention on Future Multilateral Co-operation in the Northwest Atlantic Fisheries, 1978, and the enforcement of such measures.

This limitation on Canada's accession to the compulsory jurisdiction of the ICJ does not appear to include disputes about the assertion of full Canadian jurisdiction over this geographic area, which is entirely distinct from an application of management measures (as Canada itself argued in 1994/95). Accordingly, to avoid compulsory dispute settlement on such an assertion, Canada would need to further limit its acceptance of the Court's jurisdiction.

Conclusions

In sum, the extension of a Canadian EEZ or EFZ beyond 200 M would be contrary to international law, extraordinarily difficult to enforce, and preclude the possibility of full Canadian participation in the UNFA (which presupposes acceptance of the LOS 1982 regime, as noted above). Moreover, it would require Canada's departure from NAFO, leaving little or no multilateral basis for continuing management, should Canada's extension of jurisdiction ultimately fail. This could place Canada in a worse position with respect to the problem of IUU fishing discussed earlier, in that the removal of NAFO would leave no international management measures in place, as noted by a DFO representative who appeared before the House of Commons Standing Committee:

> ...[I]t is important to note that in the absence of NAFO, there would, in fact, be no agreed rules on how the fisheries would be conducted within straddling stocks. NAFO provides the forum for trying to cooperate on conservation measures. In its absence, there would effectively be no rules to govern harvesting activities on straddling stocks outside 200 miles.[53]

Sedentary Species Management

There is one unilateral jurisdictional option, short of EEZ expansion, that should be noted. Canada, consistent with both the LOS 1982 and the 1958 Geneva Convention on the Continental Shelf,[54] currently exercises jurisdiction over sedentary species throughout its entire continental shelf. These species (defined by regulation in Canada) are those which "at the harvestable stage" are immobile on the seabed, or can move only in constant contact with the bottom.[55] It could be argued that any taking of such species constitutes an infringement of Canada's sovereign rights, and that this jurisdiction could be "leveraged" into an ability to restrict or prohibit any fishing method which results in the exploitation of such species (at least where these species are found).

There is some limited precedent for this approach in activities of the US prior to their extension of fisheries jurisdiction in 1976, when they enforced against vessels on the shelf that had on board certain amounts of prescribed species. However, the US recognized that any use of this power to enforce, for example, where there was a de minimis violation, would be an abuse of rights and beyond the scope of international law.[56] This is an option that may bear further research, if only to establish the legitimate parameters of sedentary species jurisdiction applied to non-directed fishing that results in sedentary species bycatch, but its usefulness would in any event be limited to those locations and methods that would result in sufficient volume of such bycatch.

Custodial Management

In response to the likely difficulties that would be encountered by an extension of a Canadian EEZ or EFZ beyond 200 M, but in an effort to secure some of the central conservation and management objectives with respect to straddling stocks, it has been suggested that Canada could unilaterally declare a distinct, limited form of jurisdiction known as "custodial management". This concept has appeared most prominently in the House of Commons Standing Committee on Fisheries and Oceans report of June 2002, where it was argued that Canada could assume responsibility for management of stocks beyond 200 M on the following general terms: 57

> Under a custodial management regime, Canada would assume sole responsibility for the management and conservation of the areas of our continental shelf beyond the 200-mile limit: the Nose and Tail of the Grand Banks and the Flemish Cap. However, foreign fishing interests would not be removed; instead, historic allocation and access would be respected.... The essential purpose of custodial management would be to establish a resource management regime that would provide comparable standards of conservation and enforcement for all transboundary stocks, inside and outside the 200-mile limit. In other words, precisely the kind of regime promised by *UNFA* but delivered by Canada rather than NAFO.

A similar though less detailed proposal appears in the recent report of the Newfoundland and Labrador All Party Report:[58]

> To address the problem of foreign overfishing, Canada must establish a Canadian-based fisheries management regime to protect straddling fish stocks and their ecosystem. This would include Canada placing observers on all vessels, and implementing a custodial management regime for straddling fish stocks on the nose and tail of the Newfoundland Grand Banks.

What Is Custodial Management?

In assessing the merits of a move to custodial management over the continental shelf or parts thereof, an initial difficulty arises from the fact that it is a concept as yet unknown to international law, and is thus lacking any concrete, widely accepted definition. For the purposes of this review, the most detailed attempt at a definition – that of the House of Commons Standing Committee – is used as a starting point. It is assumed, based on that Committee's report, that the regime would extend only to straddling stocks (although there are references to designation of a geographic area including the Flemish Cap). The essence of the proposal can be found in the powers and functions that Canada would assume in the relevant area: 59

> Under such a regime, Canada would conduct the science, set the TACs, and implement and administer a conservation-based management system that would include monitoring and enforcement.

The only major aspect of what would be a full assertion of jurisdiction not found here is the power to exclude other states entirely from the fishery, with preference being given to Canada's own fishers. Instead, the allocative function would be performed by reference to "historic allocation and access". Otherwise, Canada would assume much the same power (and responsibility) that it does within its EEZ: the duty to base management on available science (and thus to conduct that science); the ability to set TACs; the power to choose and apply management measures; and the power to monitor and enforce compliance with those measures.

It should be noted at this point that a reliance on "historic" shares would not be sufficient to deal with two problems – new entrants to the fishery and development of new fisheries. In neither case would the simple equity inherent in this proposal offer a solution other than Canada stepping beyond the proposed role to decide such allocations on a unilateral basis. This is, however, a relatively minor and technical issue when considered against the more general problems with the proposal, which are addressed below.

Benefits

In general, if we assume for the moment that such a regime could successfully be implemented, it would provide a framework for the major policy challenges suggested earlier. It would be possible, under the proposed jurisdiction, to devise and implement more appropriate management principles for straddling stocks, taking into account the best available scientific evidence, unmodified by political intervention. Monitoring and enforcement could be carried out in a meaningful manner, at least to the limits of Canadian capabilities (see below). Finally, this form of jurisdiction would not restrict Canada from dealing with the non-member and IUU fishing issues. All of this, however, is predicated on the assumption that Canada could assert this jurisdiction and maintain it against the rest of the world, and it is here that more serious difficulties arise.

Feasibility and Legality

The Standing Committee Report concluded that an assertion of jurisdiction in this form would be treated differently from an expanded EEZ claim, and that it could be successfully maintained. There are, however, a number of reasons to question this conclusion.

First, the legality of such a claim is extremely doubtful, for reasons similar to those raised for the EEZ option. The removal of the "ownership" aspects of the EEZ regime still leave to Canada, as coastal state, a number of powers which are clearly important components of the EEZ legal regime. The ability to choose and implement management measures, and especially the power to enforce those measures against the vessels of other states, are powers which come as part of EEZ jurisdiction. Furthermore, the proposal would place the power of allocation of resources, another important aspect of EEZ jurisdiction, in the hands of Canada, albeit to be based on criteria which would respect "historic" shares.

In sum, the proposal amounts to an "EEZ minus resource ownership", which does not remove the fact that it would still involve the assertion of significant elements of the rights and responsibilities which comprise an EEZ, but in areas beyond the 200 M limit agreed in the LOS 1982 and confirmed in customary law as the outer extent of this zone. Accordingly, the same questions that arise with respect to an expanded EEZ are relevant here. Is there any reason to believe that there is significant support among other states for such a departure from the current state of international law? If we assume that DWFNs will vigorously oppose this claim, is Canada willing or able to take the enforcement measures necessary to make it stick? There has been no strong evidence offered to date to indicate that either of these questions can be answered in the affirmative.

The Standing Committee Report takes the view that an assertion of custodial management would be no more than a continuation of the activities that were successful in 1994/95, and points to the amendments to the Coastal Fisheries Protection Act as an example:[60]

> The Committee sees no fundamental reason custodial management cannot be implemented. By passing Bill C-29 in 1994, Canada has already demonstrated its willingness and ability to enforce conservation measures beyond its 200-mile limit. Amending the *Coastal Fisheries Protection Act* for this purpose would represent a difference only in scope and not in kind to the measures previously implemented under C-29.

This conclusion ignores critical differences between the current situation and that in 1994/95, and is based on a misapprehension of exactly what was done – and what worked – at that time. In 1994/95, Canada was in a position to argue that the jurisdictional gap in the LOS 1982, as discussed earlier, left it with no other effective avenue apart from limited unilateral action to ensure that the conservation and management principles in the Convention were met. That is, the Canadian action was premised on the existence of duties on all states to respect both conservation principles and coastal state interests in straddling stocks, but an absence of agreed multilateral means for enforcing those duties.

Canada can no longer point to the jurisdictional vacuum that existed in 1994 as a justification. The conclusion of the UNFA, in which Canada played a leadership role, represents the international community's explicit attempt to deal with this "unfinished" business from the LOS 1982. The compromise, to which Canada is a party, further limits the high seas freedom of fishing as it relates to straddling stocks, and deals with the jurisdictional competence issue by assigning a more explicit role to regional fisheries organizations, such as NAFO. It would be difficult for Canada to deny an obligation it assumed in 1995, and there is no doubt that an assertion of custodial management would be outside the structure set out in the UNFA.

The Standing Committee response is that a "comprehensive, conservation-based" management regime is "…what was promised by UNFA but which it has failed to deliver."[61] It must be remembered, however, that the UNFA was only concluded in 1995, and came into force in December 2001. This is a relatively short period for a major multilateral convention to achieve the requisite numbers of ratifications (by contrast, the LOS 1982 was signed in 1982 and came into force in 1994). Furthermore, the whole structure of the UNFA is based on the management institutions and principles being implemented in various regional organizations, a process which, frustrating though it may be, will take time. For the Standing Committee to conclude in June 2002 that a complex multilateral treaty that had only come into force six months earlier had "failed to deliver" was somewhat premature.

Apart from the changes in the international context referred to above, any lessons drawn from 1994/95 must be rooted in the nature of Canada's actions at that time. First, as noted earlier, the unilateral Canadian enforcement actions were directly tied to the multilateral management measures of NAFO, giving a higher degree of international legitimacy than might have been expected from a purely unilateral assertion of jurisdiction. The second relevant characteristic of Canadian actions in 1994/95, also noted earlier, was the multiple means by which they were pursued. The response was not a simple assertion of jurisdiction or even limited enforcement power. Rather, Canada relied as well on a combination of other activities, including domestic management and legislative improvements, bilateral and regional diplomacy and global law-making (through UNFA). The unilateral action, which certainly provided focus and a degree of diplomatic leverage, must be seen as part of this broader package of legal and diplomatic efforts.

It is assumed in the Standing Committee Report that assertion of custodial management jurisdiction would be coupled with a withdrawal from NAFO,[62] and this is certainly a likely requirement, given the extent to which the jurisdictional claim would be contrary to the letter and spirit of the NAFO Convention. Abandonment of NAFO would remove any possibility of linking Canadian enforcement to multilaterally-agreed measures, as was done in 1994/95. Furthermore, rejection of NAFO could lead to important negative consequences that must be placed in balance against the potential benefits discussed above. As was noted above, if NAFO is abandoned, and if the Canadian assertion of jurisdiction cannot be maintained, there is the real possibility of an unregulated "free for all" much worse than the situation under NAFO. Despite its problems, it would be difficult to claim that NAFO has no ameliorative impact on fishing for straddling stocks.

Even if it is assumed that custodial management could be attained, it is likely that the successful transition would take a number of years (assuming opposition by DWFNs, including legal challenges). The damage done in the meantime, in the absence of any effective multilateral management, could be significant. This could eliminate one of the primary perceived advantages of custodial management over other diplomatic avenues, which is the speed with which it could be implemented.

Conclusion

An assertion of custodial management jurisdiction over straddling stocks beyond the Canadian EEZ would, if successful, provide the opportunity to pursue more effective management of those stocks. It would, however, appear to be a violation of customary international law, and of Canada's recently-agreed treaty obligations under the UNFA. Without a significant investment in enforcement, and a willingness to engage in potentially protracted confrontations (legal and otherwise) with other states, this move would face a strong possibility of ultimate failure. Furthermore, there are important risks attendant upon such a step, in that the removal of a multilateral management presence, even for a transitional period, could result in serious impacts from uncontrolled fishing.

The threat or actual assertion of custodial management might have some role as "leverage", as part of a broader package of multilateral efforts to improve management of straddling stocks. However, it would be such a significant step to unilateralism, beyond what was attempted in 1994/95, that its usefulness even in this context is questionable.

Renewal and Adaptation Within NAFO

In 1994/95, as suggested above, Canada achieved some successes by operating at a number of levels - national, bilateral, regional and global. The practical outcomes at the regional level were reflected in improvements to the NAFO regime; improvements which, despite more recent apparent "backsliding", were nonetheless significant. The question which remains is whether further renewal and adaptation of the NAFO system could still be a realistic option for dealing with the continuing problems posed by management of straddling stocks off the East Coast. While the House of Commons Standing Committee was skeptical of the value of further efforts in NAFO, it should be recalled that new legal instruments and avenues for both cooperation and confrontation have emerged since 1995, and any assessment of this option must be made with those developments in mind.

The potential list for action is long, and could begin with "operational" improvements within the existing mandate, focussed on such issues as the inspection regime, blacklisting of offending ships and ensuring that full publicity is given to identified violations.[63] More ambitious goals could include a re-negotiation of the NAFO Convention to address issues such as, inter alia: enhancement of the opportunities for member-state inspection and enforcement against vessels of other members; changes to the voting system to reflect a "weighting" for degree of interest and involvement in a fishery; strengthening of the role played by scientific advice in contrast to political decisions; elimination or reform of the objection system in management decision-making; and development of a dispute settlement system.[64]

The desired improvements could in some cases be sought through diplomacy in NAFO (perhaps with a more aggressive public component), while the more substantive changes would require amendment of the NAFO Convention. Both of these options present difficulties. Diplomacy in NAFO has achieved gains in the past, but experience would indicate that the most substantial results have been obtained when that diplomacy has been backed up by other action outside the confines of the organization. With respect to formal amendment, it is true that the NAFO Convention can be amended by a vote of three-quarters of the membership. The problem, of course, is that given the current composition of the membership, favourable amendments are unlikely to achieve the necessary majority.

This does not mean, however, that it is impossible to seek change in NAFO. As noted earlier, the coming into force of UNFA, and its relationship to the LOS 1982, opens new possibilities for Canada to put pressure on recalcitrant members, and to seek constructive interpretations and enforcement of existing NAFO obligations.

Dispute Settlement Under UNFA

As was noted in the earlier discussion of UNFA, the Agreement provides that the compulsory dispute settlement procedures in Part XV of LOS 1982 apply to any dispute as to the "interpretation and application" of UNFA, and to any "dispute between states parties to …[UNFA] concerning the interpretation or application of a subregional, regional or global fisheries agreement relating to straddling fish stocks or highly migratory fish stocks to which they are parties, including any dispute concerning the conservation and management of such stocks…".[65] Part XV of LOS 1982 provides a number of options for dispute settlement, including non-binding conciliation procedures.[66] If settlement is not achieved through non-binding means, compulsory dispute settlement is available,[67] under one of a number of fora, including the International Tribunal for the Law of the Sea, other arbitral tribunals or the International Court of Justice[68] (see Appendix C).

The combined operation of UNFA and Part XV of LOS 1982 offers the possibility of obtaining objective and authoritative determinations respecting the extent to which NAFO members (and other states) are fulfilling their obligations under UNFA and/or the NAFO Convention, something which was clearly lacking in 1994/95. Given the impact of Article 30(5), which allows tribunals to apply the terms of UNFA, the relevant regional agreement and "generally accepted standards for the conservation and management of living marine resources", it is at least conceivable that the scope of legal debate might be framed more widely, and in a manner more favourable to Canada's objectives. In this context, it should be recalled that Canada's position has always been that a large part of the problem with NAFO has been the failure of members to fully implement and comply with their obligations.

Utilization of the dispute settlement procedure may offer the possibility of obtaining orders or other remedies[69] respecting the failure of NAFO members to, eg,. investigate in good faith or to apply agreed management measures, but the importance of these processes is not limited to concrete legal results. As was recognized in 1994/95, and as has been emphasized by the House of Commons Standing Committee, the fight over straddling stocks is one which must engage the domestic populations of those states perceived as the worst offenders, and a concerted campaign of public education is essential to making Canada's case.[70] In this context, it would be invaluable to be able to point to objective, independent rulings which confirmed Canada's position.

There are, of course, obstacles to the pursuit of the dispute settlement option, including the difficulty of proving violations which are often based in inaction rather than action. The most significant problem, however, is the fact that many NAFO members, including the EU, are not yet party to the UNFA and are thus not subject to the compulsory dispute resolution structure which it provides (see Table 2). It has been reported, however, that the EU has "made a political commitment to ratify" in the near future,[71] and this should be encouraged by all means possible. Bringing the EU within the scope of UNFA will be a significant step forward.

Table 2 – NAFO Members and Acceptance of *LOS 1982, UNFA*

NAFO Members	LOS 1982	UNFA
Bulgaria	Signed, ratified	--
Canada	Signed – Not party	Signed, ratified
Cuba	Signed, ratified	--
Denmark (Faroe Islands and Greenland)	Signed – Not party	Signed - Not party
Estonia	--	--
European Union	Signed, formal Confirmation	Signed - Not party
France (St. Pierre and Miquelon)	Signed, ratified	--
Iceland	Signed, ratified	Signed, ratified
Japan	Signed, ratified	Signed – Not party
Korea (Republic Of)	Signed, ratified	Signed – Not party
Latvia	--	--
Lithuania	--	--
Norway	Signed, ratified	Signed, ratified
Poland	Signed, ratified	--
Russian Federation	Signed, ratified	Signed, ratified
Ukraine	Signed, ratified	Signed, ratified
USA	--	Signed, ratified

Ratification of LOS 1982

The other major potential gap results from the inapplicability of UNFA dispute settlement procedures to non-parties to UNFA.[72] The LOS 1982, on the other hand, has a much more extensive list of parties in general (142 as of April 2003[73]), and in the NAFO membership in particular (see Table 2). This is, however, a list which does not yet include Canada. The question of Canadian ratification is a debate with implications beyond the scope of this study (including Canada's willingness to be subjected to dispute settlement for potential actions beyond 200 M under the Coastal Fisheries Protection Act), but there are two points of particular relevance to the straddling stocks problem.

First, ratification of LOS 1982 opens the possibility of pursuing non-UNFA states (whether members of NAFO or not) via compulsory dispute settlement, where those states are parties to LOS 1982. It is true that the obligations of states fishing on the high seas, as stated in the Convention, are minimal (as shown above), but they are still obligations which give rise to justiciable issues. Part of Canada's justification for unilateral action in 1994/95 was grounded in the assertion that certain states were in violation of international law through their tolerance of unrestricted fishing practices on the high seas in the Northwest Atlantic. Availability of compulsory dispute settlement under the LOS 1982 would make it possible to pursue those contentions in a court or tribunal, something which cannot be done at present.

Second, it is assumed here that Canada will need to obtain significant international support for its demands for a rules-based, conservation-oriented regime in the Northwest Atlantic, and that this support must come from states and from public opinion in DWFNs. It will be essential that Canada demonstrate that its own house is in order, as it has done in recent years with sweeping, and painful, conservation measures within its own EEZ. Against this, Canada's continuing failure to become a party to the single most important international legal instrument of global oceans governance – one which has delivered massive jurisdictional entitlements to Canada – will be difficult to explain.

Conclusions

The discussion here is not intended to suggest that the availability of compulsory dispute settlement will be a cure-all for the ills of NAFO. It does, however, raise the possibility of adding to the diplomatic tools available to achieve the main objective considered in this section, which is the renewal and improvement of the NAFO system. Hard negotiations in NAFO and other forms of pressure (such as ship blacklisting, port closures and public education efforts) would all need to be part of the mix in any effort to reform the current system. Compulsory dispute settlement, however, provides a new and valuable avenue which should be explored, one which can be integrated with other actions as part of a coordinated effort to seek meaningful change in NAFO.

Conclusions and Recommendations

The problem of overfishing and poorly regulated fishing for straddling stocks outside Canada's 200 M limit is not amenable to any one "quick fix". As is argued above, Canada has been most successful in bringing about productive changes in NAFO when it has pursued a combination of actions at different levels – national, regional and global - but with a continued recognition of the need for multilateral management. It is the conclusion of this study that recent proposals for the unilateral assertion of "custodial management" jurisdiction beyond 200 M, while they may promise a quick and straightforward solution to these difficulties, are unlikely to deliver that result.

The assertion of this form of jurisdiction would be widely regarded as a violation of international law, including treaty obligations voluntarily assumed by Canada under the UNFA. As such, it is highly likely to attract significant resistance, and insufficient support, from the international community. When this prospect is considered together with the fact that Canada would need to abandon NAFO to pursue this course, it becomes clear that a declaration of custodial management is not a "risk free" option. A failure to enforce and maintain custodial management in the face of resistance from other states would result in a complete lack of regulation over the relevant stocks, perhaps for a significant period of time. It is the conclusion of this report that the likelihood of successfully maintaining such a claim is very low, which means that very serious risks would be incurred in exchange for a very low probability of a successful outcome.

There is another consideration which should be kept in mind as well. The effort that would be expended in declaring and defending this highly problematic claim would divert attention and resources from less dramatic but more productive long-term actions, and would be likely to reduce international support Canada might otherwise attract.

In the end, the most realistic conclusion is that for the foreseeable future the management and conservation of fish stocks beyond 200 M will require the presence of NAFO or something like it, and the most productive course of action is to enhance the management capabilities of the organization that is already in place. This is not to suggest that this is an easy task, nor that it will be without further frustrations, but it does recognize the reality of the situation. It is certainly possible for Canada to act more forcefully within the current NAFO system, and particularly to take full advantage of those options for dispute settlement that become available under UNFA and, assuming ratification, under the LOS 1982. Consistent with the multi-faceted approach taken in 1994/95, these options should be pursued in tandem with other diplomatic and public education initiatives to maximize the pressure on fishing states to accept the overall objective stated by the House of Commons Standing Committee (and by the Newfoundland and Labrador All-Party Committee), a "comprehensive, conservation-based fisheries management regime outside the 200-mile limit that is as rigorous as that inside the 200-mile limit."

Endnotes

[1] See evidence recounted in: House of Commons Standing Committee on Fisheries and Oceans, *Foreign Overfishing: Its Impacts and Solutions – Conservation on the Nose and Tail of the Grand Banks and the Flemish Cap*, (House of Commons, June 2002; hereinafter *Standing Committee Report*) at: http://www.parl.gc.ca/InfoComDoc/37/1/FOPO/Studies/Reports/FOPORP10-e.htm (accessed March 30, 2003), pp. 9-10. (Note – the on-line version of the report is not paginated. All page references are to the sequential pages, beginning with the first page of the Introduction, as presented on the website version of the Report). See also the Committee's reiteration of its position, and its dissatisfaction with the Government response, in its more recent report, *Custodial Management Outside Canada's 200 Mile Limit* (House of Commons, March 2003) at: http://www.parl.gc.ca/InfoComDoc/37/2/FOPO/Studies/Reports/foporp02-e.htm (accessed April 15, 2003).

[2] *Standing Committee Report*, *ibid*, p.17. See also: Newfoundland and Labrador All Party Committee on the 2J3KL and 3Pn4Rs Cod Fisheries, *Stability, Sustainability and Prosperity: Charting a Future for Northern and Gulf Cod Stocks* (St. John's, March 2003, hereinafter *All-Party Report*), p. 6.

[3] *Agreement For The Implementation Of The Provisions Of The United Nations Convention On The Law Of The Sea Of 10 December 1982 Relating To The Conservation And Management Of Straddling Fish Stocks and Highly Migratory Fish Stocks*, A/CONF.164/37, September 8, 1995; adopted August 4, 1995; in force Dec. 11, 2001.

[4] The issue of sedentary stock jurisdiction is addressed further below, but it should be noted that Canada claims a continental shelf outside 200 M: *Oceans Act*, S.C. 1996, c. 31 (hereinafter *Oceans Act*), s. 17. Although the outer limits of this jurisdiction have not been delineated, it is clear that it extends to the areas of interest for straddling stocks.

[5] There are other stocks, not listed here, that remain unregulated in that no quotas or other measures have been established.

[6] *Convention on Future Multilateral Cooperation in the Northwest Atlantic Fisheries*, done at Ottawa, October 24, 1978, Canada Treaty Series 1979 No. 11 (hereinafter *NAFO Convention*). This Convention replaced the earlier *International Convention on Northwest Atlantic Fisheries* (ICNAF), following Canada's extension of fisheries jurisdiction to 200 M.

[7] Source: NAFO, http://www.nafo.ca/

[8] See summary at *Standing Committee Report*, p. 7.

[9] The issue of fishing beyond 200 M extends beyond perceived abuses of the NAFO system to include illegal, unreported and unregulated fishing (IUU fishing) in general, which would encompass non-parties to NAFO. This problem, as reflected both inside and outside national jurisdiction, has been the subject of extensive work by the FAO, and is discussed briefly below.

[10] For an early review of these problems as they emerged in the NAFO context, see R. Applebaum, "The Straddling Stocks Problem: The Northwest Atlantic Situation, International Law and Options for Coastal State Action", in A. Soons, *ed.*, *Implementation of the Law of the Sea Convention Through International Institutions* (Honolulu: Law of the Sea Institute and University of Hawaii, 1990), pp. 282-317. See also *Standing Committee Report*, pp. 7, 11.

[11] For discussions of the global scope of this problem by the 1990s, see, *eg*.: E. Miles & W. Burke, "Pressures on the United Nations Convention on the Law of the Sea of 1982 Arising from New Fisheries Conflicts: The Problem of Straddling Stocks", 20 *Ocean Development and International Law* 343 (1989); E. Meltzer, "Global Overview of Straddling and Highly Migratory Fish Stocks: The Nonsustainable Nature of High Seas Fisheries", 25 *Ocean Development and International Law* 255 (1994); W. Burke, "Fishing in the Bering Sea Donut: Straddling Stocks and the New International Law of Fisheries", 16 *Ecology Law Quarterly* 285 (1989). For a discussion of the direct relationship between the exclusion of Distant Water Fishing Nations (DWFNs) from 200 M zones and the growth of the straddling stocks problem, see F.M.A. Pfirter, "Straddling Stocks and Highly Migratory Stocks in Latin American Practice and Legislation: New Perspectives in Light of Current International Negotiations", 26 *Ocean Development and International Law* 127 (1995), pp. 133-134.

[12] With the exception of sedentary species on the continental shelf, as discussed below.

[13] UN Doc. A/Conf.62/122, Dec. 6, 1982; in force Nov. 16, 1994; reprinted at (1982) 21 *I.L.M.* 1261 (Hereinafter *LOS 1982* or the Convention), Part V. See Appendix A for various provisions of relevance to the EEZ and high seas regimes.

[14] *Oceans Act*, ss.13-15.

[15] *LOS 1982*, Articles. 56, 61, 62.

[16] See *LOS 1982*, Articles 87, 116, 117,118,119.

[17] See *LOS 1982*, Articles 64, 66, 67.

[18] Figure reproduced in UN Atlas of the Oceans: www.oceansatlas.com/world_fisheries_and_aquaculture/html/issues/govern/xboundmng/default.htm, (accessed March 30. 2003).

[19] For reviews of these shortcomings, see Miles and Burke, *supra* note 11, and Meltzer, *supra* note 11.

[20] B. Kwiatowska, "The High Seas Fisheries Regime: At A Point of No Return?", *8 International Journal of Marine and Coastal Law* (1993), p. 327; as cited in A. Thompson, "Canadian Foreign Policy and Straddling Stocks: Sustainability in an Interdependent World", 28 *Policy Studies Journal* (Summer)2000, note 3.

[21] Miles and Burke, *supra* note 11, p. 356.

[22] See Burke, *supra* note 11, pp. 300-302. Thompson, *supra* note 20, at note 3, refers to the efforts of some coastal states, including Canada, to include provision for a tribunal to address management disputes over these stocks, but it did not garner support and was withdrawn.

[23] R. Grainger and S. Garcia, *Chronicles of Marine Fishery Landings (1950-1994): Trend Analysis and Fisheries Potential*, FAO Fisheries Technical Paper 359 (1996), section 2.5: www.fao.org/DOCREP/003/W3244E/w3244e00.htm#Contents (accessed March 30, 2003).

[24] The Conference was established pursuant to a resolution of the General Assembly: G.A. Res. 47/192, U.N. GAOR, 47th Sess., U.N. Doc. A/RES/47/192 (Dec. 22 1992). The Resolution followed on from a 1992 recommendation at UNCED (see *Agenda 21: Programme of Action for Sustainable Development*, UN Doc A/CONF.151/26/Rev.1 (1992), at Chapter 17, para. 17.49).

[25] A fuller review of the actions taken in 1994/95 is found at P. Saunders, "And Now That The War Is Over: Looking Back At The Canada-European Union Fisheries Confrontation Of 1995", (1996) 31 *Canadian Law Newsletter* 15, pp. 18-25, from which portions of this section have been condensed.

[26] *Coastal Fisheries Protection Act*, R.S.C. c. C-33 (1985) as amended by S.C. c. 14 (1994). The specific application was done by regulation, through the *Coastal Fisheries Protection Regulations*, C.R.C., c. 413, as amended by S.O.R./94-362, Canada Gazette, Part II, vol. 128, No. 12 at 2222 (May 25, 1994).

[27] SOR/95-136, Canada Gazette Part II, Vol. 129, No. 6 at 650 (March 3, 1995). Application to Spain and Portugal was repealed by SOR/95-222, Canada Gazette Part II, Vol. 129, No. 10, at 1445 (May 1, 1995), after the negotiation of a settlement.

[28] The particular action against *Estai* resulted in Spain bringing a case against Canada in the International Court of Justice. Canada, however, asserted its reservation to the jurisdiction of the Court (May 10, 1994) for disputes concerning "conservation and management measures taken by Canada with respect to vessels fishing in the NAFO Regulatory Area…": http://www.icj-cij.org/icjwww/ibasicdocuments/ibasictext/ibasicdeclarations.htm#cana (accessed March 30, 2003). The Court applied the reservation and found that it had no jurisdiction to adjudicate the dispute: *Fisheries Jurisdiction Case (Spain v. Canada)*, ICJ [1998], General List no. 96: http://www.icj-cij.org/icjwww/idocket/iec/iecframe.htm (accessed March 30, 2003).

[29] Canada - European Community: Agreed Minute On The Conservation And Management Of Fish Stocks, done at Brussels April 20, 1995, reprinted at (1995) 34 I.L.M. 1260 (1995). By a decision of the NAFO Annual Meeting, the terms became effective against other NAFO Parties on January 1, 1996: DFO Press Release NR-HQ-95-108E, Sept. 15, 1995.

[30] Thompson, *supra* note 20, p. 14.

[31] P. Saunders, "Jurisdiction and Principle in the Law of the Sea", in C. Carmody *et al, eds*, *Trilateral Perspectives on International Legal Issues: Conflict and Coherence* (Baltimore: American Society of International Law, 2003), p. 398.

[32] Portions of this review of *UNFA* are drawn from a fuller version found in *ibid*, pp. 393- 397.

[33] See, *eg.*: D.A. Balton, "Strengthening The Law of the Sea: The New Agreement on Straddling Fish Stocks and Highly Migratory Fish Stocks" 27 *Ocean Development and International Law* 125 (1996); L. Juda, "The 1995 United Nations Agreement on Straddling Fish Stocks and Highly Migratory Fish Stocks: A Critique" 28 *Ocean Development and International Law* 147 (1997); T. McDorman, "The Dispute Settlement Regime of the Straddling and Highly Migratory Fish Stocks Convention", 35 Canadian Yearbook of International Law 57-79 (1997). For selected provisions from the Agreement, see Appendix B.

[34] *UNFA*, Art. 8(3). Given the requirement to join or comply with management measures of these organizations, membership must be made possible for new entrants. States with a "real interest" in a relevant fishery "may become members of such organization or participants in such arrangement" [Art. 8(3)]. Where none exists, coastal states and DWFNs "shall cooperate to establish such an organization or enter into other appropriate arrangements: [Art 8(5)].

[35] Flag state enforcement is required under Art. 19(1), and is also reflected in the general duties set out in Part V.

[36] Boarding and inspection require prior notice and compliance with certain rules and procedures [Arts 21(1),(2),(4); 24]. Most important, where violations are detected, the flag state is notified and may enforce itself or authorize the inspecting state to investigate [Art 21(5),(6)]. In the case of "serious violations" (defined in Art. 21(11) to include, eg., fishing without licence, fishing in closed areas or seasons or for stocks under moratorium, and tampering with evidence), if the flag state has not acted, the inspecting state may order the vessel to port to complete the investigation. However, the flag state can still re-assert its rights by acting to enforce itself [Arts. 21(8),(12)].

[37] *UNFA*, Art. 23 (1), (2).

[38] Under *UNFA* Art. 29, there is also the possibility of establishing *ad hoc* expert panels to consult with parties in a non-binding process, on disputes relating to matters of a "technical" nature.

[39] *UNFA*, Art. 30(1),(2).

[40] *UNFA*, Art. 30(4). See McDorman, *supra* note 33, p. 22.

[41] *UNFA*, Art. 7(2). The requirement for adoption of compatible measures is subject to an extensive list of considerations, including the following: measures previously applied by coastal and fishing states, or by regional organizations; respective dependence on the stocks; the impact on living marine resources; biological unity of stocks and interrelated stocks. There is no apparent priority established among these quite varied "considerations": L. Juda, *supra* note 33 , pp. 154-155.

[42] See Saunders, *supra* note 31, pp. 396-397, for a discussion of the various qualifications and limitations which may tend to weaken the innovative impact of *UNFA* insofar as the introduction of new management approaches is concerned.

[43] Available at: http://www.fao.org/fi/agreem/codecond/ficonde.asp (accessed April 15, 2003).

[44] FAO, September 2002: http://www.fao.org/fi/agreem/codecond/codecon.asp (accessed April 15, 2003).

[45] FAO, 2001: http://www.fao.org/DOCREP/003/y1224e/y1224e00.HTM (accessed April 15, 2003).

[46] Adopted by the 27th FAO Conference, Nov. 1993. Text at: http://www.fao.org/legal/treaties/012T-e.htm (accessed April 17, 2003). Hereinafter *Compliance Agreement*.

[47] *Compliance* Agreement, Art. XI(1). There have been 24 acceptances deposited, including Canada, the EU, Norway and the United States. http://www.fao.org/legal/treaties/012s-e.htm (accessed April 17, 2003).

[48] *Standing Committee Report*, p. 15.

[49] *All-Party Report*, p. 6.

[50] The *Oceans Act*, s. 16, makes it possible to prescribe "fishing zones" by regulation. Although this was probably intended more for *internal* management zones, the wording of the section does not explicitly restrict its use outside 200 M. However, the reference in the section to areas "adjacent to the coast of Canada" could be taken to be distinct from areas "adjacent to the EEZ". In any event, a fishing zone of this type could still be legislated, if not prescribed under regulation.

[51] *Standing Committee Report*, p. 16.

[52] Canadian Declaration of May 10, 1994, *supra* note 28.

[53] Testimony of Patrick Chamut, Assistant Deputy Minister, Fisheries Management, to House of Commons Standing Committee, Feb. 28, 2002. http://www.parl.gc.ca/InfoComDoc/37/1/FOPO/Meetings/Evidence/fopoev41-e.htm (accessed March 30, 2003).

[54] Article 2(4): The natural resources …[of the shelf] consist of the mineral and other non-living resources of the seabed and subsoil together with living organisms belonging to sedentary species…".

[55] The relevant provision in the *LOS 1982* is Article 77(4), which provides as follows:

> The natural resources referred to in this Part consist of the mineral and other non-living resources of the seabed and subsoil together with living organisms belonging to sedentary species, that is to say, organisms which, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or the subsoil.

[56] See the discussion of this issue at E. R. Fidell, "Ten Years Under the Bartlett Act: A Status Report on the Prohibition of Foreign Fishing", 54 Boston Univ. Law Review 705 (1974), pp. 725-729.

[57] *Standing Committee Report*, p. 17.

[58] *All Party Report*, p.6.

[59] *Standing Committee* Report, p. 17.

[60] *Standing Committee Report*, pp 17-18.

[61] *Standing Committee Report*, p. 15.

[62] *Standing Committee Report*, p. 18.

[63] For a full discussion of these and other potential actions within the current structure, see A. Chircop, D.M. Johnston and H. Williamson, *Straddling Stocks In The Northwest Atlantic: Conservation Concerns and Options – A Report to the Fisheries Council of Canada* (Halifax: April 2003), pp. 48-51.

[64] *Ibid*, pp. 51-58 The issue of an internal dispute settlement system for NAFO has been the subject of negotiation through the NAFO Working Group on Dispute Settlement Procedures, but no agreement has been reached. For a discussion of the Consolidated Text which has been the subject of discussion, see *ibid*. at pp. 57-58.

[65] *UNFA*, Art. 31(1),(2).

[66] *LOS 1982*, Art. 284.

[67] *LOS* 1982, Art 286. There are a number of restrictions on the availability of compulsory dispute settlement in *LOS 1982* which apply here as well, the most important of which is the exclusion of disputes related to a coastal state's exercise of its powers to manage fisheries within the EEZ: *LOS 1982*, Art. 297(3)(a). There is no restriction which would preclude compulsory dispute settlement for the issues likely to arise with respect to straddling stocks.

[68] *LOS 1982* allow for parties to agree on other dispute settlement procedures, including binding procedures established within regional organizations, which would be given priority over the choices within Part XV: *LOS 1982*, Arts. 280, 282. These provisions would apply under *UNFA* as well by operation of Art. 30.

[69] Decisions are final and binding, and must be complied with by parties: *LOS 1982*, Art. 296. Provisional measures are available under *LOS 1982*, Art. 290, and *UNFA*, Art. 31. The *UNFA* provision contemplates provisional measures to "preserve the respective rights of the parties to the dispute or to prevent damage to the stock in question" (With respect to states which are not party to *LOS* 1982, UNFA, Art. 31(3), limits the powers of the International Tribunal for the Law of the Sea to prescribe provisional measures in cases where an arbitral tribunal has not yet been constituted.)

[70] This point was clearly recognized in Recommendation 4 of the *Standing Committee Report*, p.18:

"That the Government of Canada conduct a targeted public information campaign to increase awareness of violations of NAFO conservation measures by vessels under the flag of member states and to canvass for public support to end the abusive exploitation of the fisheries resources of the Northwest Atlantic."

[71] Testimony of Mr. Patrick Chamut, *supra* note 53.

[72] *UNFA*, Art. 33, makes the following provisions with respect to non-parties, but it does not, and could not, subject non-parties to the dispute settlement scheme:

> 1.States parties shall encourage non-parties to this Agreement to become parties thereto and to adopt laws and regulations consistent with its provisions.
>
> 2.States parties shall take measures consistent with this Agreement and international law to deter the activities of vessels flying the flag of non-parties which undermine the effective implementation of this Agreement.

[73] UN Division of Ocean Affairs and Law of the Sea, List of Ratifications and Accessions: http://www.un.org/Depts/los/reference_files/chronological_lists_of_ratifications.htm#The United Nations Convention on the Law of the Sea (accessed April 12, 2003).

Appendix A
Selected Provisions – 1982 United Nations Convention on the Law of the Sea

EXCLUSIVE ECONOMIC ZONE

Article 55

Specific legal regime of the exclusive economic zone

The exclusive economic zone is an area beyond and adjacent to the territorial sea, subject to the specific legal regime established in this Part, under which the rights and jurisdiction of the coastal State and the rights and freedoms of other States are governed by the relevant provisions of this Convention.

Article 56

Rights, jurisdiction and duties of the coastal State in the exclusive economic zone

1. In the exclusive economic zone, the coastal State has:
(a) sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds;
(b) jurisdiction as provided for in the relevant provisions of this Convention with regard to:
(i) the establishment and use of artificial islands, installations and structures;
(ii) marine scientific research;
(iii) the protection and preservation of the marine environment;
(c) other rights and duties provided for in this Convention.
2. In exercising its rights and performing its duties under this Convention in the exclusive economic zone, the coastal State shall have due regard to the rights and duties of other States and shall act in a manner compatible with the provisions of this Convention.
3. The rights set out in this article with respect to the seabed and subsoil shall be exercised in accordance with Part VI.

Article 57

Breadth of the exclusive economic zone

The exclusive economic zone shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured.

Article 61
Conservation of the living resources

1. The coastal State shall determine the allowable catch of the living resources in its exclusive economic zone.

2. The coastal State, taking into account the best scientific evidence available to it, shall ensure through proper conservation and management measures that the maintenance of the living resources in the exclusive economic zone is not endangered by over-exploitation. As appropriate, the coastal State and competent international organizations, whether subregional, regional or global, shall cooperate to this end.

3. Such measures shall also be designed to maintain or restore populations of harvested species at levels which can produce the maximum sustainable yield, as qualified by relevant environmental and economic factors, including the economic needs of coastal fishing communities and the special requirements of developing States, and taking into account fishing patterns, the interdependence of stocks and any generally recommended international minimum standards, whether subregional, regional or global.

4. In taking such measures the coastal State shall take into consideration the effects on species associated with or dependent upon harvested species with a view to maintaining or restoring populations of such associated or dependent species above levels at which their reproduction may become seriously threatened.

5. Available scientific information, catch and fishing effort statistics, and other data relevant to the conservation of fish stocks shall be contributed and exchanged on a regular basis through competent international organizations, whether subregional, regional or global, where appropriate and with participation by all States concerned, including States whose nationals are allowed to fish in the exclusive economic zone.

Article 62
Utilization of the living resources

1. The coastal State shall promote the objective of optimum utilization of the living resources in the exclusive economic zone without prejudice to article 61.

2. The coastal State shall determine its capacity to harvest the living resources of the exclusive economic zone. Where the coastal State does not have the capacity to harvest the entire allowable catch, it shall, through agreements or other arrangements and pursuant to the terms, conditions, laws and regulations referred to in paragraph 4, give other States access to the surplus of the allowable catch, having particular regard to the provisions of articles 69 and 70, especially in relation to the developing States mentioned therein.

3. In giving access to other States to its exclusive economic zone under this article, the coastal State shall take into account all relevant factors, including, *inter alia*, the significance of the living resources of the area to the economy of the coastal State concerned and its other national interests, the provisions of articles 69 and 70, the requirements of developing States in the subregion or region in harvesting part of the surplus and the need to minimize economic dislocation in States whose nationals have habitually fished in the zone or which have made

substantial efforts in research and identification of stocks.

4. Nationals of other States fishing in the exclusive economic zone shall comply with the conservation measures and with the other terms and conditions established in the laws and regulations of the coastal State. These laws and regulations shall be consistent with this Convention and may relate, *inter alia*, to the following:

(a) licensing of fishermen, fishing vessels and equipment, including payment of fees and other forms of remuneration, which, in the case of developing coastal States, may consist of adequate compensation in the field of financing, equipment and technology relating to the fishing industry;

(b) determining the species which may be caught, and fixing quotas of catch, whether in relation to particular stocks or groups of stocks or catch per vessel over a period of time or to the catch by nationals of any State during a specified period;

(c) regulating seasons and areas of fishing, the types, sizes and amount of gear, and the types, sizes and number of fishing vessels that may be used;

(d) fixing the age and size of fish and other species that may be caught;

(e) specifying information required of fishing vessels, including catch and effort statistics and vessel position reports;

(f) requiring, under the authorization and control of the coastal State, the conduct of specified fisheries research programmes and regulating the conduct of such research, including the sampling of catches, disposition of samples and reporting of associated scientific data;

(g) the placing of observers or trainees on board such vessels by the coastal State;

(h) the landing of all or any part of the catch by such vessels in the ports of the coastal State;

(i) terms and conditions relating to joint ventures or other cooperative arrangements;

(j) requirements for the training of personnel and the transfer of fisheries technology, including enhancement of the coastal State's capability of undertaking fisheries research;

(k) enforcement procedures.

5. Coastal States shall give due notice of conservation and management laws and regulations.

Article 63

Stocks occurring within the exclusive economic zones of two or more coastal States or both within the exclusive economic zone and in an area beyond and adjacent to it

1. Where the same stock or stocks of associated species occur within the exclusive economic zones of two or more coastal States, these States shall seek, either directly or through appropriate subregional or regional organizations, to agree upon the measures necessary to coordinate and ensure the conservation and development of such stocks without prejudice to the other provisions of this Part.

2. Where the same stock or stocks of associated species occur both within the exclusive economic zone and in an area beyond and adjacent to the zone, the coastal State and the States fishing for such stocks in the adjacent area shall seek, either directly or through appropriate subregional or regional organizations, to agree upon the measures necessary for the conservation of these stocks in the adjacent area.

CONTINENTAL SHELF

Article 76
Definition of the continental shelf

1.The continental shelf of a coastal State comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance.

...

Article 77
Rights of the coastal State over the continental shelf

1. The coastal State exercises over the continental shelf sovereign rights for the purpose of exploring it and exploiting its natural resources.
2. The rights referred to in paragraph 1 are exclusive in the sense that if the coastal State does not explore the continental shelf or exploit its natural resources, no one may undertake these activities without the express consent of the coastal State.
3. The rights of the coastal State over the continental shelf do not depend on occupation, effective or notional, or on any express proclamation.
4. The natural resources referred to in this Part consist of the mineral and other non-living resources of the seabed and subsoil together with living organisms belonging to sedentary species, that is to say, organisms which, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or the subsoil.

HIGH SEAS

Article 87
Freedom of the high seas

1. The high seas are open to all States, whether coastal or land-locked. Freedom of the high seas is exercised under the conditions laid down by this Convention and by other rules of international law. It comprises, *inter alia*, both for coastal and land-locked States:

(a) freedom of navigation;
(b) freedom of overflight;
(c) freedom to lay submarine cables and pipelines, subject to Part VI;
(d) freedom to construct artificial islands and other installations permitted under international law, subject to Part VI;

(e) freedom of fishing, subject to the conditions laid down in section 2;
(f) freedom of scientific research, subject to Parts VI and XIII.

2. These freedoms shall be exercised by all States with due regard for the interests of other States in their exercise of the freedom of the high seas, and also with due regard for the rights under this Convention with respect to activities in the Area.

Article 116
Right to fish on the high seas

All States have the right for their nationals to engage in fishing on the high seas subject to:
(a) their treaty obligations;
(b) the rights and duties as well as the interests of coastal States provided for, *inter alia*, in article 63, paragraph 2, and articles 64 to 67; and
(c) the provisions of this section.

Article 117
Duty of States to adopt with respect to their nationals measures for the conservation of the living resources of the high seas

All States have the duty to take, or to cooperate with other States in taking, such measures for their respective nationals as may be necessary for the conservation of the living resources of the high seas.

Article 118
Cooperation of States in the conservation and management of living resources

States shall cooperate with each other in the conservation and management of living resources in the areas of the high seas. States whose nationals exploit identical living resources, or different living resources in the same area, shall enter into negotiations with a view to taking the measures necessary for the conservation of the living resources concerned. They shall, as appropriate, cooperate to establish subregional or regional fisheries organizations to this end.

Article 119
Conservation of the living resources of the high seas

1. In determining the allowable catch and establishing other conservation measures for the living resources in the high seas, States shall:
(a) take measures which are designed, on the best scientific evidence available to the States concerned, to maintain or restore populations of harvested species at levels which can

produce the maximum sustainable yield, as qualified by relevant environmental and economic factors, including the special requirements of developing States, and taking into account fishing patterns, the interdependence of stocks and any generally recommended international minimum standards, whether subregional, regional or global;

(b) take into consideration the effects on species associated with or dependent upon harvested species with a view to maintaining or restoring populations of such associated or dependent species above levels at which their reproduction may become seriously threatened.

2. Available scientific information, catch and fishing effort statistics, and other data relevant to the conservation of fish stocks shall be contributed and exchanged on a regular basis through competent international organizations, whether subregional, regional or global, where appropriate and with participation by all States concerned.

3. States concerned shall ensure that conservation measures and their implementation do not discriminate in form or in fact against the fishermen of any State.

Appendix B
Selected Provisions – 1995 United Nations Fish Stocks Agreement (UNFA)

Article 2
Objective

The objective of this Agreement is to ensure the long-term conservation and sustainable use of straddling fish stocks and highly migratory fish stocks through effective implementation of the relevant provisions of the Convention.

Article 3
Application

1. Unless otherwise provided, this Agreement applies to the conservation and management of straddling fish stocks and highly migratory fish stocks beyond areas under national jurisdiction, except that articles 6 and 7 apply also to the conservation and management of such stocks within areas under national jurisdiction, subject to the different legal regimes that apply within areas under national jurisdiction and in areas beyond national jurisdiction as provided for in the Convention.
2. In the exercise of its sovereign rights for the purpose of exploring and exploiting, conserving and managing straddling fish stocks and highly migratory fish stocks within areas under national jurisdiction, the coastal State shall apply *mutatis mutandis* the general principles enumerated in article 5.
3. States shall give due consideration to the respective capacities of developing States to apply articles 5, 6 and 7 within areas under national jurisdiction and their need for assistance as provided for in this Agreement. To this end, Part VII applies *mutatis mutandis* in respect of areas under national jurisdiction.

Article 4
Relationship between this Agreement and the Convention

Nothing in this Agreement shall prejudice the rights, jurisdiction and duties of States under the Convention. This Agreement shall be interpreted and applied in the context of and in a manner consistent with the Convention.

PART II
CONSERVATION AND MANAGEMENT OF STRADDLING FISH STOCKS AND HIGHLY MIGRATORY FISH STOCKS

Article 5
General principles

In order to conserve and manage straddling fish stocks and highly migratory fish stocks, coastal States and States fishing on the high seas shall, in giving effect to their duty to cooperate in accordance with the Convention:

(a) adopt measures to ensure long-term sustainability of straddling fish stocks and highly migratory fish stocks and promote the objective of their optimum utilization;

(b) ensure that such measures are based on the best scientific evidence available and are designed to maintain or restore stocks at levels capable of producing maximum sustainable yield, as qualified by relevant environmental and economic factors, including the special requirements of developing States, and taking into account fishing patterns, the interdependence of stocks and any generally recommended international minimum standards, whether subregional, regional or global;

(c) apply the precautionary approach in accordance with article 6;

(d) assess the impacts of fishing, other human activities and environmental factors on target stocks and species belonging to the same ecosystem or associated with or dependent upon the target stocks;

(e) adopt, where necessary, conservation and management measures for species belonging to the same ecosystem or associated with or dependent upon the target stocks, with a view to maintaining or restoring populations of such species above levels at which their reproduction may become seriously threatened;

(f) minimize pollution, waste, discards, catch by lost or abandoned gear, catch of non-target species, both fish and non-fish species, (hereinafter referred to as non-target species) and impacts on associated or dependent species, in particular endangered species, through measures including, to the extent practicable, the development and use of selective, environmentally safe and cost-effective fishing gear and techniques;

(g) protect biodiversity in the marine environment;

(h) take measures to prevent or eliminate overfishing and excess fishing capacity and to ensure that levels of fishing effort do not exceed those commensurate with the sustainable use of fishery resources;

(i) take into account the interests of artisanal and subsistence fishers;

(j) collect and share, in a timely manner, complete and accurate data concerning fishing activities on, inter alia, vessel position, catch of target and non-target species and fishing effort, as set out in Annex I, as well as information from national and international research programmes;

(k) promote and conduct scientific research and develop appropriate technologies in support of fishery conservation and management; and

(l) implement and enforce conservation and management measures through effective monitoring, control and surveillance.

Article 6
Application of the precautionary approach

1. States shall apply the precautionary approach widely to conservation, management and exploitation of straddling fish stocks and highly migratory fish stocks in order to protect the living marine resources and preserve the marine environment.

2. States shall be more cautious when information is uncertain, unreliable or inadequate. The absence of adequate scientific information shall not be used as a reason for postponing or failing to take conservation and management measures.

3. In implementing the precautionary approach, States shall:

(a) improve decision-making for fishery resource conservation and management by obtaining and sharing the best scientific information available and implementing improved techniques for dealing with risk and uncertainty;

(b) apply the guidelines set out in Annex II and determine, on the basis of the best scientific information available, stock-specific reference points and the action to be taken if they are exceeded;

(c) take into account, inter alia, uncertainties relating to the size and productivity of the stocks, reference points, stock condition in relation to such reference points, levels and distribution of fishing mortality and the impact of fishing activities on non-target and associated or dependent species, as well as existing and predicted oceanic, environmental and socio-economic conditions; and

(d) develop data collection and research programmes to assess the impact of fishing on non-target and associated or dependent species and their environment, and adopt plans which are necessary to ensure the conservation of such species and to protect habitats of special concern.

4. States shall take measures to ensure that, when reference points are approached, they will not be exceeded. In the event that they are exceeded, States shall, without delay, take the action determined under paragraph 3 (b) to restore the stocks.

5. Where the status of target stocks or non-target or associated or dependent species is of concern, States shall subject such stocks and species to enhanced monitoring in order to review their status and the efficacy of conservation and management measures. They shall revise those measures regularly in the light of new information.

6. For new or exploratory fisheries, States shall adopt as soon as possible cautious conservation and management measures, including, inter alia, catch limits and effort limits. Such measures shall remain in force until there are sufficient data to allow assessment of the impact of the fisheries on the long-term sustainability of the stocks, whereupon conservation and management measures based on that assessment shall be implemented. The latter measures shall, if appropriate, allow for the gradual development of the fisheries.

7. If a natural phenomenon has a significant adverse impact on the status of straddling fish stocks or highly migratory fish stocks, States shall adopt conservation and management measures on an emergency basis to ensure that fishing activity does not exacerbate such adverse impact. States shall also adopt such measures on an emergency basis where fishing activity presents a serious threat to the sustainability of such stocks. Measures taken on an emergency basis shall be temporary and shall be based on the best scientific evidence available.

Article 7
Compatibility of conservation and management measures

1. Without prejudice to the sovereign rights of coastal States for the purpose of exploring and exploiting, conserving and managing the living marine resources within areas under national jurisdiction as provided for in the Convention, and the right of all States for their nationals to engage in fishing on the high seas in accordance with the Convention:

(a) with respect to straddling fish stocks, the relevant coastal States and the States whose nationals fish for such stocks in the adjacent high seas area shall seek, either directly or through the appropriate mechanisms for cooperation provided for in Part III, to agree upon the measures necessary for the conservation of these stocks in the adjacent high seas area;

...

PART III
MECHANISMS FOR INTERNATIONAL COOPERATION CONCERNING STRADDLING FISH STOCKS AND HIGHLY MIGRATORY FISH STOCKS

Article 8
Cooperation for conservation and management

1. Coastal States and States fishing on the high seas shall, in accordance with the Convention, pursue cooperation in relation to straddling fish stocks and highly migratory fish stocks either directly or through appropriate subregional or regional fisheries management organizations or arrangements, taking into account the specific characteristics of the subregion or region, to ensure effective conservation and management of such stocks.

2. States shall enter into consultations in good faith and without delay, particularly where there is evidence that the straddling fish stocks and highly migratory fish stocks concerned may be under threat of over-exploitation or where a new fishery is being developed for such stocks. To this end, consultations may be initiated at the request of any interested State with a view to establishing appropriate arrangements to ensure conservation and management of the stocks. Pending agreement on such arrangements, States shall observe the provisions of this Agreement and shall act in good faith and with due regard to the rights, interests and duties of other States.

3. Where a subregional or regional fisheries management organization or arrangement has the competence to establish conservation and management measures for particular straddling fish stocks or highly migratory fish stocks, States fishing for the stocks on the high seas and relevant coastal States shall give effect to their duty to cooperate by becoming members of such organization or participants in such arrangement, or by agreeing to apply the conservation and management measures established by such organization or arrangement. States having a real interest in the fisheries concerned may become members of such organization or participants in such arrangement. The terms of participation in such organization or arrangement shall not preclude such States from membership or participation; nor shall they be applied in a manner

which discriminates against any State or group of States having a real interest in the fisheries concerned.

4. Only those States which are members of such an organization or participants in such an arrangement, or which agree to apply the conservation and management measures established by such organization or arrangement, shall have access to the fishery resources to which those measures apply.

...

Article 12

Transparency in activities of subregional and regional fisheries management organizations and arrangements

1. States shall provide for transparency in the decision-making process and other activities of subregional and regional fisheries management organizations and arrangements.

...

Article 13

Strengthening of existing organizations and arrangements

States shall cooperate to strengthen existing subregional and regional fisheries management organizations and arrangements in order to improve their effectiveness in establishing and implementing conservation and management measures for straddling fish stocks and highly migratory fish stocks.

PART V

DUTIES OF THE FLAG STATE

Article 18

Duties of the flag State

1. A State whose vessels fish on the high seas shall take such measures as may be necessary to ensure that vessels flying its flag comply with subregional and regional conservation and management measures and that such vessels do not engage in any activity which undermines the effectiveness of such measures.

2. A State shall authorize the use of vessels flying its flag for fishing on the high seas only where it is able to exercise effectively its responsibilities in respect of such vessels under the Convention and this Agreement.

...

PART VI
COMPLIANCE AND ENFORCEMENT

Article 19
Compliance and enforcement by the flag State

1. A State shall ensure compliance by vessels flying its flag with subregional and regional conservation and management measures for straddling fish stocks and highly migratory fish stocks. To this end, that State shall:

(a) enforce such measures irrespective of where violations occur;

(b) investigate immediately and fully any alleged violation of subregional or regional conservation and management measures, which may include the physical inspection of the vessels concerned, and report promptly to the State alleging the violation and the relevant subregional or regional organization or arrangement on the progress and outcome of the investigation;

(c) require any vessel flying its flag to give information to the investigating authority regarding vessel position, catches, fishing gear, fishing operations and related activities in the area of an alleged violation;

(d) if satisfied that sufficient evidence is available in respect of an alleged violation, refer the case to its authorities with a view to instituting proceedings without delay in accordance with its laws and, where appropriate, detain the vessel concerned; and

(e) ensure that, where it has been established, in accordance with its laws, a vessel has been involved in the commission of a serious violation of such measures, the vessel does not engage in fishing operations on the high seas until such time as all outstanding sanctions imposed by the flag State in respect of the violation have been complied with.

2. All investigations and judicial proceedings shall be carried out expeditiously. Sanctions applicable in respect of violations shall be adequate in severity to be effective in securing compliance and to discourage violations wherever they occur and shall deprive offenders of the benefits accruing from their illegal activities. Measures applicable in respect of masters and other officers of fishing vessels shall include provisions which may permit, inter alia, refusal, withdrawal or suspension of authorizations to serve as masters or officers on such vessels.

Article 20
International cooperation in enforcement

1. States shall cooperate, either directly or through subregional or regional fisheries management organizations or arrangements, to ensure compliance with and enforcement of subregional and regional conservation and management measures for straddling fish stocks and highly migratory fish stocks.

2. A flag State conducting an investigation of an alleged violation of conservation and management measures for straddling fish stocks or highly migratory fish stocks may request the assistance of any other State whose cooperation may be useful in the conduct of that

investigation. All States shall endeavour to meet reasonable requests made by a flag State in connection with such investigations.

3. A flag State may undertake such investigations directly, in cooperation with other interested States or through the relevant subregional or regional fisheries management organization or arrangement. Information on the progress and outcome of the investigations shall be provided to all States having an interest in, or affected by, the alleged violation.

4. States shall assist each other in identifying vessels reported to have engaged in activities undermining the effectiveness of subregional, regional or global conservation and management measures.

5. States shall, to the extent permitted by national laws and regulations, establish arrangements for making available to prosecuting authorities in other States evidence relating to alleged violations of such measures.

6. Where there are reasonable grounds for believing that a vessel on the high seas has been engaged in unauthorized fishing within an area under the jurisdiction of a coastal State, the flag State of that vessel, at the request of the coastal State concerned, shall immediately and fully investigate the matter. The flag State shall cooperate with the coastal State in taking appropriate enforcement action in such cases and may authorize the relevant authorities of the coastal State to board and inspect the vessel on the high seas. This paragraph is without prejudice to article 111 of the Convention.

7. States Parties which are members of a subregional or regional fisheries management organization or participants in a subregional or regional fisheries management arrangement may take action in accordance with international law, including through recourse to subregional or regional procedures established for this purpose, to deter vessels which have engaged in activities which undermine the effectiveness of or otherwise violate the conservation and management measures established by that organization or arrangement from fishing on the high seas in the subregion or region until such time as appropriate action is taken by the flag State.

Article 23
Measures taken by a port State

1. A port State has the right and the duty to take measures, in accordance with international law, to promote the effectiveness of subregional, regional and global conservation and management measures. When taking such measures a port State shall not discriminate in form or in fact against the vessels of any State.

2. A port State may, inter alia, inspect documents, fishing gear and catch on board fishing vessels, when such vessels are voluntarily in its ports or at its offshore terminals.

3. States may adopt regulations empowering the relevant national authorities to prohibit landings and transshipments where it has been established that the catch has been taken in a manner which undermines the effectiveness of subregional, regional or global conservation and management measures on the high seas.

4. Nothing in this article affects the exercise by States of their sovereignty over ports in their territory in accordance with international law.

PART VIII
PEACEFUL SETTLEMENT OF DISPUTES

Article 27
Obligation to settle disputes by peaceful means

States have the obligation to settle their disputes by negotiation, inquiry, mediation, conciliation, arbitration, judicial settlement, resort to regional agencies or arrangements, or other peaceful means of their own choice.

Article 30
Procedures for the settlement of disputes

1. The provisions relating to the settlement of disputes set out in Part XV of the Convention apply *mutatis mutandis* to any dispute between States Parties to this Agreement concerning the interpretation or application of this Agreement, whether or not they are also Parties to the Convention.

2. The provisions relating to the settlement of disputes set out in Part XV of the Convention apply *mutatis mutandis* to any dispute between States Parties to this Agreement concerning the interpretation or application of a subregional, regional or global fisheries agreement relating to straddling fish stocks or highly migratory fish stocks to which they are parties, including any dispute concerning the conservation and management of such stocks, whether or not they are also Parties to the Convention.

...

5. Any court or tribunal to which a dispute has been submitted under this Part shall apply the relevant provisions of the Convention, of this Agreement and of any relevant subregional, regional or global fisheries agreement, as well as generally accepted standards for the conservation and management of living marine resources and other rules of international law not incompatible with the Convention, with a view to ensuring the conservation of the straddling fish stocks and highly migratory fish stocks concerned.

Appendix C
Compulsory Dispute Settlement: UNFA and LOS 1982

As is noted in the body of the report, the *UNFA* applies the compulsory dispute settlement procedures found in Part XV of *LOS 1982* to disputes respecting the interpretation and application of *UNFA*, and to the interpretation and application of any relevant regional fisheries management agreement (such as the NAFO Convention). This Appendix is intended to briefly summarize the procedural options available under Part XV.

With the exceptions referred to in the body of the report, disputes which cannot be settled by non-binding means such as negotiation or conciliation under the Convention (Art. 284), or which the parties have not agreed to settle by other binding means, are subject to compulsory dispute settlement under the Convention (*LOS 1982* Art. 286; *UNFA* Art. 30).

By Article 287, *LOS 1982* (and Art. 30(3),(4) of *UNFA*), parties elect one or more of the available *fora* under the Convention (and may choose different ones for different purposes). The options are the following (as well as any other agreed by the parties, as noted in the body of the report). Where a party has not made an election, or where the parties to a dispute have elected different options, the default procedure is the Article VII Arbitral:[1]

a. **The International Tribunal for the Law of the Sea** (ITLOS) – A more formal, judicial body with 21 members (though cases may be heard by smaller Chambers). ITLOS is established by Annex VI of the Convention. For details on its operation and jurisdiction, see the summary prepared by the Division for Ocean Affairs and law of the Sea at the UN: http://www.un.org/Depts/los/settlement_of_disputes/settlement_of_disputes.htm (accessed April 20, 2003).

b. **Arbitral Tribunals – Annex VII** - Created under Annex VII of the Convention, these tribunals include five members chosen by the parties (one each and three jointly), drawn from a list nominated by States Parties (with the President of ITLOS choosing where agreement is not possible). The expertise can be of a broader "maritime" type, and tribunals can determine their own procedure.

c. **Special Arbitral Tribunals – Annex VIII** - Drawn from a list of experts in a number of fields, established by various UN organizations, special arbitral tribunals under Annex VIII of the Convention can only deal with disputes related to 1) fisheries, (2) protection and preservation of the marine environment, (3) marine scientific research, or (4) navigation, including pollution from vessels and by dumping" (Annex VIII – Art. 1). In addition to issuing decisions, these tribunals can, on agreement of the parties, fulfill a purely "fact finding" role, which could prove extremely useful in facilitating subsequent agreement by negotiation.

d. **The International Court of Justice (ICJ)** – This Court is, of course, extremely formal, entirely legal in its orientation and comes with its own procedural rules and practices.

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[1] Canada, in ratifying the *UNFA*, elected for the Article VII Arbitral Tribunals. It also declared its reservation with respect to disputes relating to boundaries, historic title, military activities and disputes being dealt with by the Security Council under the Charter of the UN. This reservation is explicitly provided for in Art. 298 of the *LOS 1982*.

Royal Commission on Renewing and Strengthening Our Place in Canada

The 1985 Canada-Newfoundland Atlantic Accord

– John C. Crosbie

April 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Introduction 233
The Long Winding Road to the 1985 Atlantic Accord 233
Consistent Policy and Political Statements 238
Review of the Major Issues and Problems of the Atlantic Accord 241
The Financial and National Costs of Permitting a Failure of the Atlantic Accord 244
Sharing of Total Offshore Revenues 246
History of Canada's Natural Resources 250
What Needs to Be Done? 251
Conclusion 252

Table I: ***Selected Offshore Fiscal, Operating and Employment Statistics Newfoundland and Labrador, December 31, 2002*** 254
Table II: ***Selected Provincial Fiscal and Economic StatisticsNewfoundland and Labrador, March 2003*** 255

Introduction

I have been requested to provide the Royal Commission with an analysis and commentary on the Canada-Newfoundland Atlantic Accord on offshore petroleum resources and to give specific attention to the issue of whether the spirit and intent of the Accord has been met. My paper will concentrate first on the basic spirit and intent of the Atlantic Accord when it was entered into by the Government of Canada (Canada) and the Government of Newfoundland and Labrador (Newfoundland) on February 11, 1985 as a "Memorandum of Agreement between the two Governments on Offshore Oil and Gas Resource Management and Revenue Sharing". I will examine the history of events leading up to the signing of the Atlantic Accord and what both parties said their intentions and aims were, as well as examine the text of the Accord, subsequent Accord implementation legislation, and other relevant documents, policy statements, speeches and events especially with respect to the question of whether the Accord enabled the Province to become the "principal beneficiary" from the development of oil and gas resources offshore Newfoundland, and whether it enabled Canada to achieve its aims or "purposes".

In accordance with my terms, this paper will also include a brief overview of the benefits that have been enjoyed by the Province and Canada related to the exploration for and development of the offshore petroleum resources off Newfoundland and Labrador with an assessment as to whether the division of the benefits between Canada and Newfoundland has occurred in accordance with the spirit and intent of the Atlantic Accord. In considering what the benefits enjoyed by Canada or the Province have been, much will depend on whether that party has achieved the purposes it set for itself in the Accord.

This overview paper will then draw a number of conclusions from my review of the history of the Atlantic Accord and my analysis of how it has performed to date, and offer several recommendations for policy options the two partners to the Accord could adopt that might better address the spirit and intent of the Accord with respect to the original purposes for revenue sharing and fiscal benefits that would flow to Newfoundland.

The Long Winding Road to the 1985 Atlantic Accord

A long history of events occurred leading up to the bilateral Atlantic Accord agreement between Canada and Newfoundland. It is necessary to consider these events to understand what the basic spirit and intent of the Atlantic Accord was, particularly on the issue of the Province becoming the principal beneficiary in fiscal terms of revenue from the oil and gas resources off its shores.

The Canada Oil and Gas Land Regulations were implemented by P.C. 1961-797 of June 6, 1961 with the Regulations applying to Canada Lands defined as all land owned by the Crown in the Right of Canada that was not within any Province. Those Regulations were stated to be designed to encourage industrial operators to carry out exploration programs in the frontier regions in the Arctic and offshore. There were very important differences between Newfoundland and Nova Scotia and Canada as to which government had jurisdiction over the offshore resources and who had ownership and jurisdiction. In February, 1966 preparations were being finalized for a reference to the Supreme Court of Canada on offshore mineral rights relative to the West Coast of Canada, and plans were in process to open negotiations with France to establish an acceptable line of demarcation between areas of Canadian and French jurisdiction over submerged lands in the region of St. Pierre and Miquelon on the East Coast.

The first deep drilling program on Canada's continental shelf was carried out on the Grand Banks off Newfoundland in 1966 with one well drilled 100 miles offshore. In 1967 a deep exploratory well was drilled in the Sable Island area, off Nova Scotia.

In November 1967 Canada decided to give consideration to various forms of pooling of all offshore revenues with the provinces to determine whether there was an equitable and acceptable basis upon which the provincial share of the national pool, as Canada phrased it, could be subdivided among individual provinces, thereby allowing for special recognition of the claims of the coastal provinces.

In December, 1968 Prime Minister Pierre Trudeau announced a plan for sharing of offshore revenues so that provinces would receive half of the revenues accruing from offshore mineral resources located seaward of "mineral resource administration lines" established off provincial coasts. Landward of these lines adjacent provinces would receive all of the mineral resource revenues, and seaward a 50:50 split. The question of how the provincial share of revenues would be divided was left open to suggestions by the provinces.

Based on the Supreme Court of Canada Decision of November, 1967 on the British Columbia Offshore Reference, the federal position was confirmed that Canada was entitled to the proprietary and other rights in areas offshore from historic boundaries.

In July, 1971 Canada decided to explore with Nova Scotia, New Brunswick, P.E.I. and Newfoundland alternate measures of sharing offshore revenues more generous to the Provinces than the previous 50/50 per cent offer. A suggested formula was 20 per cent to be distributed among all four provinces with 50 per cent to be given to the province off whose coast the revenue was derived and 30 per cent to be retained by Canada.

In July, 1972 Canada continued discussions with the Atlantic Provinces but also decided to begin work on a Reference to the Supreme Court of Canada on questions of ownership and jurisdiction with respect to mineral rights off the East Coast. In August the Prime Minister and the Premiers of the East Coast provinces decided to set aside questions of jurisdiction and ownership, and to try and reach an agreement on the practical matters of administration and revenue sharing of offshore resources.

In 1973 the federal government concluded that a proposal of the Premier of Newfoundland for a solution to the East Coast mineral rights situation was unacceptable and could not be used as a basis for further discussions. At that time Canada believed that administration and ultimate decision making authority regarding offshore mineral resources must remain essentially under federal administration in view of the many factors and responsibilities which they thought were involved of a national character including uniform and efficient management, standardized policies of resource management, optimum conservation practices, control of export arrangements, establishment of Canadian criminal and civil law in the offshore, and negotiations and agreements with foreign states. Canada also decided to continue negotiations with the four Atlantic provinces and Quebec.

During 1976, negotiations on these matters continued, and in July the federal government decided as part of its negotiating position to offer the Maritime Provinces 75 per cent of the net offshore mineral resource revenues accruing from areas offshore those provinces. It also indicated willingness to come to an agreement with the Maritime Provinces with or without the concurrence of Newfoundland and Quebec.

In February 1977 the three Maritime Provinces signed a Memorandum of Understanding ("MOU") with the Government of Canada in the form of a Statement of Principles proposing a new regime for joint administration and management of mineral resources offshore the Maritime provinces, and with revenue sharing of 75 per cent to provinces seaward of federal-provincial demarcation lines and 100 per cent landward of these lines. In September 1978 Nova Scotia repudiated that MOU and asked that the offshore question be part of a constitutional review.

In February 1979, during the First Minister's Conference on the Constitution, the Prime Minister tabled a draft federal government proposal accepting the principle of concurrent legislative authority over the management of offshore resources with federal paramountcy for some elements of the management regime and provincial paramountcy for others, but leaving aside the ownership question.

In June 1979 a minority Progressive Conservative government under Prime Minister Joe Clark was elected, and promised to transfer ownership and jurisdiction of offshore mineral rights to coastal provinces. Mr. Clark's government was defeated in December 1979 before having time to implement such a policy.

In September 1980, at the First Ministers' Conference on the Constitution, the re-elected Prime Minister Trudeau set out the position of his government on offshore mineral resources. He proposed that the question of ownership be set aside and the federal government was ready to make a proposal and agree in principle that the major benefits from development offshore should accrue to the residents of the adjacent coastal province. The federal government further proposed that until those provinces became "have" provinces, they should receive the same kinds of revenues as are derived by provinces from their onshore resources. Canada also proposed a system of joint administration for offshore mineral resources involving Canada and each of the coastal provinces.

The federal government introduced its now infamous National Energy Program ("NEP") in October 1980, in which it expressed a desire to have the Supreme Court of Canada settle the offshore ownership question with Newfoundland, as soon as possible.

New legislation enacted as part of the NEP established a new management regime for oil and gas resource development in Canada's offshore areas and on all Canada lands. It required a minimum of 50 per cent Canadian ownership before production could begin on Canada lands; reserved to Canada a 25 per cent interest in oil and gas discoveries on Canada lands ("Crown Share"); established a royalty system, and provided for maximum possible use of Canadian goods and services. The legislation was harshly criticized by industry, particularly in relation to the 25 per cent Crown Share that was described as a "carried interest" or popularly referred to as the Petro-Canada "back-in" provision.

From time to time during the next two years there were indications of the views of the Government of Canada and the Prime Minister with respect to how the issues of offshore resources and revenues might be settled by Canada with Newfoundland (and Nova Scotia). On July 16, 1980 Prime Minister Trudeau was questioned in the House of Commons by John Crosbie, M.P., St. John's West, and stated:

> "The commitment we have made regarding the offshore is that until the provinces with resources off their shores have reached the average income in Canada, we intend to see that they get the overwhelming part of the resources from the offshore, precisely so that they will not have to receive subsidies".

On March 2, 1982 the "Canada-Nova Scotia Agreement on Offshore Oil and Gas Resource Management and Revenue Sharing" was entered into as a bilateral agreement and "political settlement of the issues between the two governments," and "to be implemented through legislation which the parties shall introduce to Parliament and the legislature of Nova Scotia respectively." These two pieces of legislation were subsequently enacted into law. Meanwhile, Newfoundland continued to completely oppose such arrangements as were proposed in the 1982 Canada-Nova Scotia Offshore Agreement.

On May 19, 1982 Prime Minister Trudeau announced that Canada would take the Newfoundland offshore jurisdiction issue to the Supreme Court of Canada. Canada and Newfoundland decided that although the offshore ownership matter was before the Courts, they would resume negotiations without pre-conditions on the issues of resource management and revenue sharing.

Then on September 2, 1982 Canada made a comprehensive proposal to Newfoundland on "offshore oil and gas resource management and revenue sharing", very similar to the Offshore Agreement entered into with Nova Scotia six months earlier. That proposal pointed out that the oil and gas industry needed the certainty of a single offshore resource management and fiscal regime. In dealing with "Objectives", the proposal pointed out that Canada "has a national responsibility to ensure security of energy supplies....and a fair distribution of resource revenues." On page five of the proposal, Canada stated: "However, it is recognized that Newfoundland should enjoy the major share of the revenue that offshore resources are expected to generate...the Province deserves a full voice in development decisions to ensure that the pace of activity does not outstrip Newfoundland's ability to cope with such activity."

Canada stated that it had a number of objectives including increased energy security and economic prosperity for the people of Newfoundland and Labrador and for all Canadians, and that a settlement should (iv) "contribute to reducing the financial dependence of the Newfoundland government on transfer payments" and (iii) to "ensure that Newfoundlanders, and subsequently all Canadians, receive a fair share of the economic return from offshore oil and gas production."

In discussing revenues, Canada stated that, "Newfoundland would initially receive all provincial-type and all federal resource revenues, excepting the normal federal share of corporate income tax, until the Province reaches a level of fiscal and economic capacity well above the national average, known as the sharing "trigger".

It was also stated that in the future, once Newfoundland has benefited substantially from oil and gas production revenues, a wider sharing with all Canadians would take place after the proposed "triggering" had been reached. The "trigger" measured the economic well-being of the province using two tests:

(1) The Government of Newfoundland and Labrador must achieve a level of fiscal capacity per capita well above the Canadian norm (fiscal capacity measures the level of tax revenues per capita the provincial government could receive based on representative

Canadian tax rates). This would allow it to provide a level of public services consistent with other provinces which now enjoy a higher level of economic well being; and to reduce its current debt and tax burdens. The first test of the proposed "trigger" would be met when Newfoundland's fiscal capacity per capita reached 110 per cent of the Canadian average.

(2) The people of Newfoundland and Labrador must also have reached an improved level of economic prosperity as reflected by the unemployment rate in the province. The proposed 110 per cent base "trigger" is increased by two points for every percentage point by which Newfoundland's unemployment rate is greater than the Canadian average.

It was pointed out that this dual test in 1981 would imply a "trigger" of 123 per cent of the national average fiscal capacity. In 1979-80 Newfoundland's fiscal capacity per capita was 58 per cent of the Canadian national average.

Canada emphasized the significance of its proposal by using the example of the Hibernia-type field assuming 1.4 billion barrels of oil produced over 35 years. Under this proposed fiscal regime, approximately 75 per cent of all government revenues, excluding the return of each governments' investment under the then Crown interest provision, would accrue to Newfoundland according to the federal government. Canada also forecast that the sharing "trigger" would not be activated over the life of oil and gas production from the Hibernia field but stated that if it turned out that twice the amount of oil from the Hibernia field were produced during the 1990s there would be some wider sharing with all Canadians. However, they estimated that even under this scenario Newfoundland would still receive 69 per cent of total government revenues.

The summary prepared by Canada stated that the people of the province would realize the greatest and the most direct benefits from the development of offshore oil and gas resources in terms of growth and income, jobs, opportunities for new businesses, and significant new provincial government revenues. The document states that:

"The Government of Newfoundland and Labrador would receive all government resource revenues except the normal federal share of corporate income tax until they reached a level of fiscal and economic health substantially above the Canadian average." The proposal continued that it "recognizes the Government of Newfoundland and Labrador's fundamental goal of attaining economic development and self-sufficiency by creating a strong and diversified provincial economy able to contribute fully to prosperity throughout Canada." This goal is shared, the document states, by the Government of Canada.

This proposal clearly sets out what Canada wanted Newfoundland and the people of the province to believe were the objectives and goals, and commitments and promises with respect to how the problems of jurisdiction and control of the development of the oil and gas resources off the shores of Newfoundland should be dealt with, and who the beneficiaries of those developments should be. It is clear to anyone who reads this Canada Proposal what the objectives, purposes and intentions of Canada were with respect to the question of who would be the primary or principal beneficiaries of the revenues produced by the oil and gas resources lying off the shores of Newfoundland and Labrador.

The position of Canada led by Prime Minister Trudeau was stated clearly not just in the September 2, 1982 proposal to Newfoundland, but in other documents such as an earlier fax sent by Prime Minister Trudeau to Premier Brian Peckford on July 27, 1981 (with a similar fax sent on the same day to Premier John Buchanan of Nova Scotia), stating: "Our position on revenue sharing is that, if such sharing can be agreed upon through negotiation, Newfoundland should be entitled to all provincial-type revenues. In effect, we would for revenue purposes treat offshore revenues as though they were located on land. This system would continue for as long as Newfoundland remained a "have-not" province. After this, a sharing of benefits with other Canadians would start to take place".

Consistent Policy and Political Statements

There were many public policy statements by various political leaders and members of Parliament, and provincial members during the early-to-mid 1980s. Some of the most significant of these are highlighted below.

On April 5, 1984, the Honourable Jean Chrétien, then Minister of Energy, Mines and Resources of Canada, visited St. John's, following the decision of the Supreme Court of Canada on the ownership of the offshore area and made it clear Canada was seeking an agreement with the Province on the offshore since "We recognize that the Province has a special interest in the development of its offshore and the first call on the benefits from its exploitation."

He stated that under a Nova Scotia type agreement, Newfoundland would receive more oil revenues in the early years of offshore development than if it owned the resource. The Province would receive all provincial-type taxes and petroleum and gas revenue taxes as well. He explained that the provincial government would not be expected to share some of these revenues with other Canadians "Not until the Newfoundland government's fiscal capacity reached 110 per cent of the national average, with an adjustment for regional unemployment that would now raise this to about 125 per cent. In relative terms, this would mean that the Newfoundland government wouldn't be asked to share any revenue until it was the second richest province in Canada – second only to Alberta; about 40 per cent richer than Ontario; and twice as rich as you and your neighbors in Atlantic Canada are today." He hypothesized that "Hibernia development, or even two Hibernias, would probably not provide enough revenue to reach the trigger for broader sharing – leaving almost all offshore revenue with the provincial government."

In dealing with concerns expressed about the effect of the equalization formula on the Province's net gain from the offshore, he asked how much would the new offshore revenues be offset by a one for one loss of equalization payments? He said "we have a provision under the current equalization formula that guarantees equalization payments will not decline more than 15 per cent a year" and in the Nova Scotia Agreement, there is a provision that guarantees the Province will receive payments to offset the reduction in their equalization payments. Those payments would decline over time but provide major protection in the early years." He then stated "I have always been willing to include some such arrangement in a Newfoundland deal to ensure that the Province had a real net increase in revenues from the offshore in the early years when it was still a "have-not" province."

Mr. Chrétien hypothesized that "provincial revenues from Hibernia might be large enough to make Newfoundland a "have" province within five years of production." This, he said, "should be a cause for celebration even if it entailed a loss of equalization payments."

On June 18, 1984 Hansard reports a debate on Bill C-43, an Act respecting the "Canada-Nova Scotia Agreement on Offshore Oil and Gas Resource Management and Revenue Sharing". Leonard Hopkins, then Parliamentary Secretary to the Minister of Energy, Mines and Resources, Jean Chrétien, was in charge of the Bill in that debate and stated as follows:

> "One aspect of Bill C-43 that is particularly important is the formula to share revenues from the offshore. The legislation ensures that Nova Scotia will receive the lion's share of offshore petroleum revenues. In fact, in the early years of the Agreement, the Province will receive substantially more revenues than if it owned the resource on land. There will be wider sharing of revenues only if the Province's relative fiscal capacity….exceeds that of almost all other provinces."

He continued that:

> "Until Nova Scotia's per capita fiscal capacity reaches 110 per cent of the national average – adjusted upward by two percentage points for every one percentage point that the Province's unemployment rate exceeds the national average – the Province will receive all offshore revenue, including a major federal tax, the petroleum and gas revenue tax, but excluding the federal share of the corporate income tax."

Pat Carney, M.P., then the energy critic for the official Opposition (the Progressive Conservative Party of Canada) and later the federal Minister of Energy, Mines and Resources in Prime Minister Brian Mulroney's administration, in the same debate in response to Mr. Hopkins stated, "The economic discrepancy between Atlantic Canada and other regions of the country is an important fact to keep in mind. It has placed provinces like Nova Scotia, which was one of the most economically active provinces at the time of Confederation – rich with shipbuilding, forestry and fishing – in a category of the "have-not" provinces. The offshore oil and gas resources represent a unique opportunity to release Nova Scotia from that category and transform it into a "have" province."

Later in the same debate, Ms. Carney who had been involved earlier that month (June 14, 1984) in reaching a Memorandum of Understanding between the leader of the Opposition (Mr. Mulroney) and his Party, and Newfoundland Premier Brian Peckford, stated "in contrast, the Atlantic Offshore Accord proposed by Mr. Mulroney, would recognize the right of the Atlantic provinces to be the principal beneficiary of the wealth of the oil and gas off their shores consistent with a strong and united Canada."

The Mulroney-Peckford MOU was an important element of the Progressive Conservative Party of Canada's proposed new policies to promote economic development in Atlantic Canada. A major feature were policies with respect to the proper management of offshore oil and gas resources. The MOU of June 14, 1984 pointed out that the issue of ownership had been dealt with by the Supreme Court decision of March 8, 1984 but that "a Progressive Conservative Government would recognize the right of Newfoundland and Labrador to be the principal beneficiary of the wealth of the oil and gas off its shore, consistent with a strong and united Canada." Mr. Mulroney further stated that a new Progressive Conservative administration would be prepared immediately to conclude an agreement with Newfoundland on the offshore, and "that the principal of revenue sharing between the federal and provincial levels should be the same for all oil and gas producing regions without discrimination. Therefore, Newfoundland would be entitled to establish and collect resource revenues as if these resources were on land."

Mr. Mulroney further wrote in principle E13 that, "it is important that there should be no dollar for dollar loss of equalization payments as a result of offshore revenues flowing to the Province."…"Newfoundland would receive offset payments from the federal government equal to 90 per cent of a year's reduction in equalization payments. Beginning in the fifth year of production this offset rate would be reduced by 10 per cent for each subsequent year."

Other statements making clear the intentions of the parties to the Atlantic Accord include:

> On February 11, 1985 then Premier Brian Peckford gave an address on the occasion of the official signing of the Atlantic Accord pointing out provisions he thought were extremely important which included at page three "the right to establish and collect revenues as if the resource was on land," and "there will not be a dollar for dollar loss of equalization payments as a result of offshore revenues". "There will be a very gradual and generous, for Newfoundland, phase out of equalization payments which allows this province to catch up socially and economically to the rest of Canada." That was what Premier Peckford believed the Accord achieved.

On the same date while announcing the Atlantic Accord, Prime Minister Mulroney also issued a statement stating:

> "We have believed firmly in the principle of equality – equality in terms of joint management and equality in terms of revenue sharing."

In addition, a statement was issued from the office of the Honourable Pat Carney, Minister of Energy, Mines and Resources, where she stated in the third paragraph:

> "The Atlantic Accord is designed to facilitate the development of the vast oil and gas resources in the offshore. It is based on three fundamental concepts. The first is that the principal beneficiary of these resources should be Newfoundland and Labrador because that is in the national interest. The second concept is that these resources should contribute to energy security for all Canadians because that too is in the national interest. The third and final concept is that producing provinces should be treated equally in areas such as revenue sharing, whether the resource is on land or offshore, because equality serves the national interest."

In an Executive Summary issued by the Minister of Energy, Mines and Resources together with the Atlantic Accord documents, Ms. Carney, dealing with equalization offset payments, states "an equalization offset payment formula has been developed which will ensure that there will not be a dollar for dollar loss of equalization payments as a result of offshore revenues. Beginning in the first year of production, Newfoundland will receive offset payments from the federal government equal to 90 per cent of a year's reduction in equalization payments.

Beginning in the fifth year of production, the offset rate will be reduced by 10 per cent for each subsequent year." It states "the equalization offset provisions of the Accord also protect Newfoundland from any future changes to the floor provisions of the Federal-Provincial Fiscal Arrangements Act which may result in the reduction of equalization entitlements to the Province."

When on February 7, 1986 Canada and Newfoundland introduced Bills to implement the Atlantic Accord, a joint press release was issued stating "there will not be a dollar for dollar loss of equalization payments as a result of offshore revenues accruing to the Province."

Such statements give a clear indication of the intention and the objectives and purposes of the Trudeau and Mulroney governments with respect to the question of who should be the primary or principal beneficiaries of the offshore oil and gas resources and revenues. Clearly it was to be Newfoundland and its people.

Review of the Major Issues and Problems of the Atlantic Accord

Clause 1 of the Atlantic Accord states the two governments reached an Accord on "joint management of the offshore oil and gas resources off Newfoundland and Labrador and the sharing of revenues from the exploitation of these resources." Legislation was to be, and was enacted by the Parliament of Canada and the Legislature of Newfoundland.

Clause 2 sets out the "Purposes of the Accord" and outlines the intent of the Accord under eight sub-sections. The intent is to achieve certain purposes that are particularly desired to be achieved by Canada and certain purposes particularly desired to be achieved by Newfoundland. For example, Purpose (a) is "to provide for the development of oil and gas resources offshore Newfoundland for the benefit of Canada as a whole and Newfoundland in particular." The achievement of that purpose was for the benefit of both Canada and Newfoundland. Purpose (b) is "to protect, preserve and advance the attainment of national self-sufficiency and security of supply." This is a purpose of the Accord particularly desired by and for the benefit of Canada and it should be noted here that the recent development of Newfoundland's offshore oil resources has resulted in Canada fully achieving that purpose since we now have attained national self-sufficiency and security of supply with respect to oil and gas energy resources for Canada.

This achievement has implications for the joint management of the offshore. Under the Canada-Newfoundland and Labrador Atlantic Accord Implementation Act, Section 33 defined what "security of supply" and "self-sufficiency" meant, and under Section 34 where a determination was made that self-sufficiency and security of supply do not exist, the federal Minister had authority in relation to certain fundamental decisions, whereas when a determination was made that self-sufficiency and security of supply existed, the provincial Minister had authority in relation to certain fundamental decisions thereafter. In 2000, Canada and Newfoundland agreed that Canada had attained national self-sufficiency with respect to oil and gas resources and security of supply and this determination is in effect for a five-year period.

It is clear that the main federal purpose for the Accord, expressed in Section 2(b) as "to protect, preserve and advance the attainment of national self-sufficiency and security of supply," is fully met.

Purpose 2(d) "to recognize the equality of both governments in the management of the resource, and insure that the pace and manner of development optimize the social and economic benefits of Canada as a whole and to Newfoundland and Labrador in particular" will always be a "work in progress" as it depends on the exploration and development of projects and the market-forces of the global petroleum industry and the economy in general. In addition, the Newfoundland offshore sector is still in the early stages of what is expected to be 30-40 years or more of activity, and both levels of government and the industry should always be working together to "optimize the social and economic benefits to Newfoundland in particular and Canada as a whole." Later in this paper I will discuss some key industry and economic indicators and statistics with respect to the Newfoundland offshore and the economy and the financial position of Newfoundland.

Purpose 2(e) "to provide that the Government of Newfoundland and Labrador can establish and collect resource revenues as if these resources were on land, within the Province;" was met but did not result in a net increase in revenues for the Province (i.e. revenue sharing) until the Province achieved at least 110 per cent of the national average per capita fiscal capacity, since the provisions of the equalization program of Canada, specifically the clawback mechanism under that program has prevented achieving the purpose of that subsection as well as the purpose of Section 2(c) which is "the right of Newfoundland to be the principal beneficiary of the oil and gas resources off its shores."

Purpose 2(f) "to provide for a stable and fair offshore management regime for the industry;" was achieved and was and is for the benefit of both parties.

Purpose 2(g), "to provide for a stable and permanent arrangement for the management of the offshore adjacent to Newfoundland by enacting the relevant provisions of this Accord in legislation of the Parliament of Canada and the legislature of Newfoundland and Labrador," was carried out and legislation enacted but clearly all of the principles and objectives of the Atlantic Accord have not yet been fulfilled.

Purpose 2(h), "to promote within this system of joint management, insofar as is appropriate, consistency with the management regimes established for other offshore areas in Canada," was achieved.

It is clear that of these eight "purposes of the Accord", the main federal purpose has been met fully while the main Newfoundland purpose has not been achieved in any significant way at all to date. The purpose expressed in 2(c) "to recognize the right of Newfoundland and Labrador to be the principal beneficiary of the oil and gas resources off its shores consistent with the requirement for a strong and united Canada" has not been met to date and will not be until steps are taken by Canada to remove the obstacle only Canada can remove. Subsection 2(e) "to provide that the Government of Newfoundland and Labrador can establish and collect resource revenues as if these resources were on land, within the Province;" is not yet achieved since the intended impact to ensure net increases in revenues for the Province so the Province would reach at least 110 per cent of the national average per capita fiscal capacity, has failed with Newfoundland not yet reaching even 70 per cent of the national average per capita fiscal capacity of the other provinces of Canada.

In summary, the purposes of the Accord as set out in Section 2 have been met and achieved completely with respect to the purposes of Canada, but not with respect to the purpose of recognizing the right of Newfoundland and Labrador to be the principal beneficiary of the oil and gas resources off its shores, despite what was said and intended by Canada and so induced Newfoundland to enter the Atlantic Accord.

Section 36 of the Atlantic Accord dealt with revenue sharing and stated the general principle that the revenue sharing between Canada and Newfoundland from petroleum-related activities in the offshore area should be the same as existed between Canada and other hydrocarbon producing provinces with respect to revenues from petroleum-related activities on land. Section 37 stated that Newfoundland should receive the proceeds of revenues from petroleum related activity in the offshore area from:

(a) royalties
(b) a corporate income tax which is the same as the generally prevailing provincial corporate income tax in the Province
(c) a sales tax that is the same as the generally prevailing provincial sales tax in the Province
(d) any bonus payments
(e) rentals and license fees
(f) other forms of resource revenue and provincial taxes of general application, consistent with the spirit of this Accord, as may be established from time to time.

Section 38 stated, "The Board (that is, the Canada-Newfoundland Offshore Petroleum Board, which is the prime regulator for the offshore) shall collect royalties, bonus payments, rentals, and license fees. These revenues and other offshore revenues referred to in Clause 37 shall be remitted to the Government of Newfoundland and Labrador." This method of "flowing" the offshore revenues, which are later reduced by another federal government program, (Equalization), enables federal politicians of today to be "technically correct", but misleading, when they state that the Province actually "collects and receives" 100 per cent of the above revenues.

Under Section 39, both governments recognized that "there should not be a dollar for dollar loss of equalization payments as a result of offshore revenues flowing to the Province." To achieve this, Canada agreed to establish special new "Equalization Offset Payments" to commence on April 1st of the first fiscal year following the attainment of cumulative production of 15 million barrels of offshore oil or the energy equivalent of natural gas. Thus there are now two parts to the equalization offset payments promises of the Government of Canada, first, already in place under the general rules of the Equalization Program for all provinces offset payments would be made equivalent to the loss of any fiscal equalization payments that resulted from any future changes to the floor provisions of the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977, as amended 1982. These provisions applied with respect to the phase-out of equalization entitlements generally if the changes were detrimental to Newfoundland and this general equalization provision has the effect of providing Newfoundland, while its per capita fiscal capacity is 70 per cent or less of the national average, with 95 per cent protection from year-over-year decreases in equalization, from whatever causes, on the "floor protection" basis already in effect under normal equalization rules in 1982. This is a commitment that if under the formula the Province will receive in a year 95 per cent or less of the equalization payments it received the previous year, then the decline would not exceed 95 per cent. To this would be added the new offset payments protections of the Accord.

The additional equalization protection that the Accord was designed to provide was that "Canada will make offset payments (Part II) equivalent to 90 per cent of any decrease in the fiscal equalization payment to Newfoundland in respect of the fiscal year in comparison with the payment for the immediately preceding fiscal year, as calculated under the prevailing Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977, as amended from time to time, and taking into account both years, the offset component entitlement already available under Part One. In the fifth fiscal year after the threshold offshore production of 15 million barrels of offshore production of oil or the energy equivalent of natural gas was achieved, the new Part II offset payment rate would begin to be reduced by 10 percentage points in each subsequent year in addition to the original 90 per cent. The effect is that in year one Part II provisions would pay Newfoundland 90 per cent of the remaining decline not covered by Part I, or approximately 4.5 per cent which would decline to zero per cent for Part II payments in year 12.

During and after the 12-year "offset mechanism" is in place, the Province has a choice or election as to whether it wants to use the "generic solution" provision of the equalization program in any particular year. With respect to certain natural resource revenues such as the offshore revenues of Nova Scotia, the offshore revenues of Newfoundland and Labrador, potash of Saskatchewan, the asbestos revenues of Quebec and certain new oil tax bases, there is this generic solution available. Where the fiscal capacity or revenues of any "tax base" of any single province represents at least 70 per cent of the total national fiscal capacity for that "tax base", then 30 per cent of that province's revenues from that source can stay with that province if it chooses that "generic solution". What has to be recognized, however, is that the "generic solution" is not carved in stone but can be changed or withdrawn unilaterally by Canada since the equalization program is a federal program governed by federal legislation.

The Financial and National Costs of Permitting a Failure of the Atlantic Accord

Contrary to the expectations of, and what has turned out to be the extremely unrealistic assumptions of, both parties who designed the Atlantic Accord in the early and mid 1980s, first oil was not produced from the Hibernia field until November 17, 1997, and the 12-year period for which Accord equalization offset payments are to be made by the federal government to Newfoundland began only in 1999.

Many unpredictable offshore and global energy events have occurred since Mr. Chrétien, Canada's Prime Minster since 1993, publicly stated in 1984 in St. John's that, "provincial revenues from Hibernia might be large enough to make Newfoundland a "have" province within five years of production." Instead, total cumulative Hibernia royalties paid to Newfoundland by 2011, the year the Atlantic Accord offset payments expire, are estimated to be between $400 million and $600 million, or approximately 50 per cent of just one year's equalization payments to Newfoundland in any year during the period 1997 to 2004! Once the 12-year offset payment period is over in 2011, Newfoundland will still be on equalization and will receive no further net revenue sharing under the Atlantic Accord. Because offshore revenues are a separate "tax base" in the equalization program, the Province will receive the "generic solution" protection of 30 per cent available to all Canadian provinces so long as Canada chooses.

The commitment to revenue sharing until Newfoundland becomes a "have" province, and "to recognize the right of Newfoundland and Labrador to be the principal beneficiary of the oil and gas resources off its shores," will never be achieved unless both parties to the bilateral Atlantic Accord make the necessary adjustments to reflect the changes in the actual evolution of the offshore industry as compared to their earlier analyses and assumptions.

As a side-note to the history of the federal equalization program, there have been many changes to the program since it was introduced in 1957. The most fundamental revision of the program took place effective April 1, 1982 with the changing of the previous 10-province standard to a five-province standard for calculating the national average per capita fiscal capacity and other important elements of the formula. Those revisions also changed the portion of natural resources to be equalized "from 50 per cent to 100 per cent." The effect of this was that for every dollar of offshore revenue received by Newfoundland, the normal operations of the equalization tax back mechanism would "clawback" dollar-for-dollar what Newfoundland received, as compared to 50 cents previously, a very significant change that also nullified the proposed fiscal benefits of the March 2, 1982 "Canada-Nova Scotia Agreement on Offshore Oil and Gas Resources Management and Revenue Sharing" to the point that a "Secret Letter Side Agreement" between the federal Minister of Energy, Mines and Resources Marc Lalonde and the Nova Scotia Minister was later revealed.

Several sections of the 1982 Canada-Nova Scotia Offshore Agreement are relevant to demonstrate the logic and consistency of the public policy statements and principles that surrounded the negotiation of the Newfoundland 1985 Atlantic Accord and the 1982 Nova Scotia Offshore Agreement and later the 1986 Nova Scotia Offshore Accord and why they have not, and never will until adjusted, deliver the fiscal benefits anticipated by both parties. For example, Section 15 of the 1982 Offshore Agreement, "Revenue Sharing" states, "the intention is that resource revenues from the offshore region shall be reduced only gradually to ensure that Nova Scotia's fiscal and economic benefits are lasting."

And Section 15 (i) states, "In no case shall the total offshore revenues flowing to the Nova Scotia government have the effect of raising the Nova Scotia government's fiscal capacity beyond 140 per cent of the national average per capita fiscal capacity."

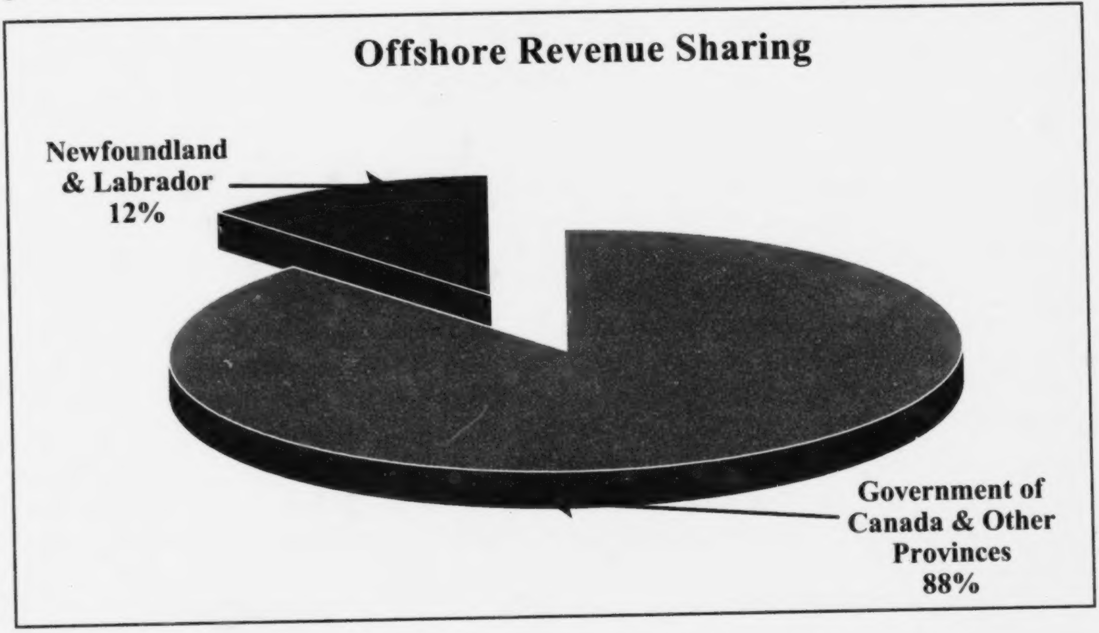
Section 13, "Crown Share" covers the terms by which Canada provides that "the Nova Scotia government shall have the right to acquire.... a 50 per cent portion of the Crown Share, in respect of a natural gas field, and a 25 per cent portion of the Crown Share in respect of an oil field." This was estimated by both parties to be a significant fiscal benefit to the Province. Most significantly, when the federal government of Prime Minister Mulroney abolished the National Energy Policy and with it the public policy of Crown Share, the replacement 1986 Canada-Nova Scotia Offshore Accord continues to contain a "Crown Share concept". This is expressed as a "Crown Share Adjustment Payment" or a proxy for the abolished Crown Share. In Article I "Objectives" of the Offshore Accord, Section 1.02(g), this proxy commitment is stated as, "to ensure that Nova Scotia will receive financial benefits equivalent to those that it would have achieved had it exercised its Crown Share option." This Objective is further operationalised in Section 45 of the Offshore Accord and Schedule IV which contains the specifics of how the Crown Share Adjustment would work, including a very significant condition that these, "adjustment payments shall terminate the year Nova Scotia reaches the national average level of fiscal capacity." This threshold is totally consistent with the many previous federal government commitments that Nova Scotia (and Newfoundland) would be the "principal beneficiary" of its offshore resources until it reached the average national level of per capita fiscal capacity.

Finally, with respect to Section 15 (1), Canada and the Government of Nova Scotia agreed that, "The sharing of revenues between the parties shall be reviewed by the parties five years after oil or gas production from the region begins, and at five year intervals thereafter." A similar clause reviewing "Objectives" is contained in the 1982 Agreement and also the 1986 Canada-Nova Scotia Offshore Accord, and clearly indicates that the Government of Canada and the Governments of Nova Scotia and Newfoundland would have discussed and recognized that the global petroleum industry, especially the "frontier East Coast" offshore sector, was and remains very cyclical and uncertain, and needs periodic reviews and adjustments if such important bilateral agreements between the two levels of Canada's governments are to "be of indefinite duration" as stated in the 1982 Agreement, or to be of a "stable and permanent arrangement" as stated in the 1985 Atlantic Accord. Furthermore, to emphasize the profound and fundamental importance all parties to both Accords agreed to at the time of signing, each Accord has a "Constitutional Entrenchment" section containing commitments by Canada to entrench the Accords in the Constitution of Canada, following certain approval procedures and/or requests.

In my opinion, it is clear that while Newfoundland fulfilled its major responsibilities under the Atlantic Accord, the federal government has not to date, and will increasingly fall short since Newfoundland clearly is not the principal beneficiary of Newfoundland's offshore resources. Under current projections, it is the view of Newfoundland that Canada is receiving the dominant share of offshore revenues, estimated at 79 per cent when its incremental corporate, personal, sales and other taxes as well as its "equalization savings" from the clawback are taken into account. Because many companies doing business in Newfoundland's offshore are headquartered in other Canadian provinces, particularly Alberta, approximately nine per cent of projected offshore revenues will be allocated or distributed to those provinces through the federal-provincial tax collection system. Thus under current projections, Newfoundland will have a net fiscal impact from its offshore revenues of approximately 12 per cent while Canada and other provinces will receive an estimated 88 per cent of these offshore revenues.

Sharing of Total Offshore Revenues

The following Chart clearly shows that Newfoundland and Labrador does not receive the "principal" amount of the total revenues generated from petroleum projects off our shores. In fact, in this particular analysis we only take about 12 per cent of all revenues and the rest of Canada takes 88 per cent. Therefore, Canada as a whole is benefiting significantly from these projects whereas Newfoundland and Labrador receives a minor share of the total revenues generated.



The projects included in this analysis are Hibernia, Terra Nova and White Rose.

The analysis considers all government-type direct, indirect and induced taxes (e.g. corporate, personal and sales tax), royalties, federal Hibernia net profits interest and equalization impacts. It does not include revenues the federal government receives from its investment in Petro-Canada or the Canadian Hibernia Holding Corporation. The share of revenues going to other provinces consists of direct provincial corporate income tax only. This is the result of the allocation mechanisms associated with corporate income taxes. Depending on the assumptions used, the above percentages may vary slightly, however, the fact that the Province is not the principal beneficiary of these offshore projects will remain.

Clearly Newfoundland is not the primary or principal beneficiary of the offshore resources, nor of offshore revenues, but a minor beneficiary when compared to the federal government. The importance of this is that unless the Atlantic Accord is honored and implemented as to its original intent, Newfoundland is unlikely ever to become a self-sufficient province within the Canadian federation.

A fundamental principle of the Canadian federation is each province has the opportunity to utilize natural resources to build its economy and society. The central public policy commitment of the 1985 Canada-Newfoundland Atlantic Accord is that Newfoundland will be the "principal beneficiary" of the oil and gas resources off its shores through the "joint management and revenue sharing" of these natural resources.

The Atlantic Accord was always discussed, negotiated and created on the basis of building a better nation together. To quote Prime Minister Chrétien from his days as Minister of Energy, Mines and Resources in 1984, "to ensure the Province (Newfoundland) has a real net increase in revenues from the offshore in early years when it was still a have-not Province."

Since the first production of oil from the Hibernia field on November 17, 1997, to the end of 2002 Hibernia has produced approximately 235 million barrels of oil. Terra Nova started up in 2002 and produced 38.5 million barrels in 2002. This has resulted in total royalty revenues from both projects of $154 million to the end of 2002. When White Rose reaches its production phase, the offshore of Newfoundland and Labrador could be producing over 400,000 barrels of oil per day, which will then account for more than one-third of Canada's total conventional light crude oil.

Despite the increased economic activity, revenues and employment of the early stages of Hibernia, Terra Nova and White Rose as shown in Table I, on page 43, the net increase in provincial treasury revenues are not projected to be sufficient to remove the eligibility of the Province for equalization nor to enable Newfoundland to improve public services such as health and education, reduce crushing taxation levels and interest carrying costs, nor stop the growth in its enormous debt burden. (see Table II on page 44.) This appears to fly in the face of widely published national economic statistics that show Newfoundland's Real Gross Domestic Product ("GDP") growing at 8.2 per cent in 2002 versus a budgeted growth of 3.7 per cent, and exceeding five per cent annually in four of the past five years. The oil and gas sector in 2001 represented 8.6 per cent of the province's total GDP. However, most of the oil produced is directly exported and there is modest impact on employment and relatively little net direct revenue impact to the provincial treasury.

It is important not to forget that the oil and gas resources off the shores of Newfoundland are depleting natural resources which will likely be gone in 30-40 years. Therefore, how can the Province build a long-term sustainable and growing economy as promoted by both levels of government during the negotiation of the Atlantic Accord; an economy that is self-sufficient, when the "principal beneficiary" of its only foreseeable substantial natural resource revenues is the federal government?

Remember that even as late as 1999 in Atlantic Canada, equalization payments represented on average more than 25 per cent of the total revenues transferred by Canada to the Atlantic equalization-receiving provinces and with respect to Newfoundland transfer payments, were 30 per cent of provincial current account revenues. In 2001-02 Newfoundland received in equalization $1,073 million, PEI $261 million, Nova Scotia $1,323 million and New Brunswick $1,192 million. The program is a generous one, but is it as effective and beneficial to the recipient provinces as it should be? Section 36(2) of the Canadian Constitution says that the main principal of equalization is to make "payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable public services at reasonably comparable levels of taxation." Despite the tremendous transfer of funds from Canada since 1957 to "have-not" provinces (approximately $200 billion), there are still great fiscal capacity deficiencies in comparison to a standardized or average Canadian provincial mark.

In 2002-03, Newfoundland's fiscal capacity per capita as compared to the national average is still only 68.5 per cent of the all-province national average. For Newfoundland to reach the national average per capita fiscal capacity in Canada in 2003-2004 would require additional annual revenue of almost $1 billion, an amount substantially more than the total direct current offshore revenues. Alberta, which received equalization payments from 1957 to 1965, had in 2002-2003 an estimated per capita fiscal capacity equal to 151.4 per cent of the national average, down from 168.9 per cent in 2000-2001. When federal Finance revises these percentages to take into account recent sharp increase in oil and gas prices, Alberta's per capita fiscal capacity will likely rise even higher!

It is estimated that total royalties and taxes from the three currently approved offshore projects (Hibernia, Terra Nova and White Rose) could peak at between $600 million and $900 million in the 2008-2011 time period, an amount which is less than today's annual equalization payments to the province. In 2011 when the Atlantic Accord "equalization offset payments" expire, the total royalties from these projects could be in the range of $300-$500 million. This does not include the real possibility that there could be substantially more revenues in this period and beyond due to potential add-ons to these projects as well as additional oil and natural gas developments on the Grand Banks and the Laurentian Sub-Basin. By 2011, "the generic solution" of 30 per cent will be the only equalization protection available to the province. Under the current implementation structure of the Atlantic Accord, and given the economic and population challenges Newfoundland is facing in the decade ahead, even with these projected offshore revenues there will be little "net revenue growth" to the provincial treasury to build a sustainable and self-sufficient economy. The net revenues from our depleting resources will not be sufficient to make us a "have" province.

A brief history of the equalization payments, and the "offset mechanism" payments since Hibernia production "commenced" under the Atlantic Accord "trigger" is contained below. Because equalization entitlements were expected to grow year-over-year in 1999-2000 and 2000-2001, Newfoundland opted for the 30 per cent 'generic solution" to apply to offshore revenues. This demonstrates the difficulties of projecting revenues for a Newfoundland economy with volatile offshore prices, an otherwise weak economy and declining population. The very "protection from riches" of rapid offshore oil project developments and rapid economic development that would immediately drive down equalization payments before the Province's own source revenues could increase, has been replaced by a "protection from drowning" by applying the "offset payment" mechanism in 2001-2002 and 2002-2003 because equalization payments generally are dropping sharply (approximately $300 million annually before Accord floor protection since 1999-2000 with the floor payment included in 2002-2003 but not Accord payment).

($Millions)	EQUALIZATION ENTITLEMENTS	GENERIC MECHANISM(1)/ OFFSET PAYMENTS(2)
2002-03	903,931	163.4 (2)
2001-02	1,072,673	44.8 (2)
2000-01	1,122,401	13.6 (1)
1999-00	1,168,508	6.1 (1)

The Atlantic Accord "offset payment" protection is already beginning to decline and will drop sharply within three to four years and expire totally in 2011. Therefore, despite rapidly growing offshore revenues there will be little net revenue gain from the Atlantic Accord and the Province's treasury will be under severe stress from the combined impacts of declining population, the Province's weak financial position and an uneven economic performance.

History of Canada's Natural Resources

It is both interesting and significant to note the evolution of most Canadian provinces with respect to the acquisition and development of natural resources. Historically we should note how our Province has been treated compared to other provinces that benefited from the territorial expansion of Canada into the north and west, which occurred before Newfoundland joined Confederation in 1949. In 1869, a steady territorial expansion of Canada began into the north and west, embracing huge areas of Crown held "dominion lands". This led to the creation of what is now Northern Ontario, Nouveau Quebec, Saskatchewan, Alberta and Manitoba. It was the understanding of the founding provinces that these north-west territories were to be held in common for the benefit of all Canadians. As it turned out, these areas were rich in valuable minerals and petroleum deposits, and later would also generate vast inexpensive hydro-electric power from the water natural resources. Canada, however, gave large tracks of these Northwest Territories to provinces or created new provinces out of them.

For example, in 1889 the boundaries of Ontario were extended northwards as far as James Bay while almost a decade later the same process occurred for Quebec. In 1912 the boundaries of Ontario, Quebec and Manitoba were extended to their current delimitations and for Quebec and Ontario this expansion included the granting to those provinces in those territories of subsoil rights.

In 1930 the Constitution Act of that year ceded subsoil rights to the Prairie provinces of Alberta, Saskatchewan and Manitoba who thus achieved a position of equity within Confederation by acquiring the right to profit from their own natural resources. While grants of subsoil rights were made to those provinces, no balancing concession was made to Nova Scotia or the other Maritime provinces, nor to Newfoundland in 1949 when it became part of Canada and brought its vast offshore resources off its coasts into the Canada federation.

Is it any wonder that there is a great sense of grievance both in Newfoundland and in Nova Scotia with respect to how they are being treated, particularly when compared to the policies of Canada with reference to Ontario, Quebec and the western provinces who were granted their natural resources and subsoil rights in the huge areas of what were Crown-held "dominion lands" and are now Northern Ontario, Northern Quebec, Saskatchewan, Alberta and Manitoba? Today, as a result of decades of tortured negotiations that finally resulted in offshore Accords between Canada and Nova Scotia (1986), and Canada and Newfoundland (1985), Nova Scotia will receive just 19 cents from every dollar of offshore revenues generated compared to 81 cents to Canada while Newfoundland will receive 12 cents only with Canada receiving, with other provinces, the remaining 88 cents from every dollar of offshore revenues.

In spite of the intent built into the Atlantic Accord and the Agreements with Nova Scotia and Newfoundland, neither has become nor will become the "principal beneficiary" of the oil and gas resources off their shores, without major changes to the Accord agreements to ensure that the stated intentions and purposes becomes reality.

What Needs to Be Done?

What is obviously needed is for Canada to work out with Newfoundland (and Nova Scotia) new or amended arrangements with respect to the use of the equalization program relative to their revenues from offshore oil or natural gas so that Canada and the Province achieve the intent and purposes of the Atlantic Accord, particularly the purpose "to recognize the right of Newfoundland and Labrador to be the principal beneficiary of the oil and gas resources and revenues off its shores." The intention was that steps be taken to minimize the impact of the separate federal program of equalization that would permit Newfoundland to be the principal beneficiary of the offshore resources until it became, at the least, a "have" province. After this, having graduated from the equalization program, the sharing of benefits with other Canadians from these offshore resources would start. This was the clear intention of both Liberal and Progressive Conservative federal administrations of Canada.

In March 2002, the "Standing Senate Committee on National Finance", Chaired by the Honourable Lowell Murray in a Report to Parliament, addressed some of the problems and frustrations with the implementation of the Canada-Newfoundland Atlantic Accord and the Canada-Nova Scotia Offshore Accord that are becoming more obvious as the projects offshore finally begin to produce oil and natural gas. After much discussion and analysis and broad public input, the Report entitled, "The Effectiveness of and Possible Improvements to the Present Equalization Policy", took the strong action of making two very insightful and nationally relevant recommendations to Canada's treatment of natural resource revenues. The recommendations are #7 and #8 in the Report and are as follows:

1. "The government change the Generic Solution so as to increase the share of a province's entitlements that are protected when it non-renewable natural resource revenues increase."
2. "The government should undertake an evaluation of the Equalization provisions of the Atlantic Accords to determine if they have met the intent for which they were designed."

The Senate Report, and the discussions and hearings held, demonstrate the broad support for the view something needs to be adjusted within the two offshore accords if they are to meet the policy objectives for which they were designed in the 1980s. This is a national issue very important to the long-term future of Canada.

The expectation that in just a short time period after 1985 Newfoundland would receive tremendous revenue increases from its offshore resources has not been borne out. In fact there was a long gap from the discovery of Hibernia to production of oil in 1997 and even longer before significant royalties and corporate taxes were received. Changes in capital costs and depletion rates and changes to the fiscal regimes of both the provinces and Canada combined to create different results are taking much longer than forecasted at the time of the Atlantic Accord and are contributing to the failure of the Accords to fulfill original projections as quickly as was thought possible.

A fair and proper resolution of this problem would see Canada seizing this opportunity to restate some fundamental principles of what it means to be a Canadian and to build a nation where each citizen can be equal. If two of the "have-not" provinces are given the opportunity to become "have" provinces as was envisaged, and as they were led to expect, Newfoundland (and Nova Scotia) would contribute to a positive renewal of federalism by becoming "have" provinces themselves as a result of the utilization of the non-renewable oil and gas resources off their shores.

This would mean increased self-sufficiency initially in Newfoundland (and Nova Scotia), and hopefully for the remainder of the Atlantic region and other provinces as their natural resources are discovered and developed. It will also result in reduced federal equalization payments as Newfoundland and Nova Scotia become "have" provinces and thereby no longer entitled to such payments.

Conclusion

This is a national issue that all provinces should be concerned about since every province should be concerned when bilateral agreements, such as the Canada-Newfoundland Atlantic Accord and the Canada-Nova Scotia Offshore Accord, entered into between a province and Canada on an issue of such importance, remains unfulfilled. That the commitment was an important one is shown by Canada committing to entrench the two Accords in the Constitution Act, if called upon to do so. It is clear that the intent of the Atlantic Accord with respect to revenue sharing will not be achieved, and Canada should not hide behind its program of equalization to justify doing nothing in attempting to carry out the commitments and promises made during the negotiations leading up to the Atlantic Accord, and contained in it.

Newfoundland still clearly remains a "have-not" province. Our complaint is not about equalization, but how Canada uses this program it controls to justify their failure to carry out their commitments made in the Atlantic Accord. Canada should, with Newfoundland, agree on the steps needed to achieve the original intent of the Atlantic Accord.

If the purposes of the Atlantic Accord are not achieved then Newfoundland and Labrador (and Nova Scotia) will likely never become self-sufficient provinces within the Canadian federation. These depleting natural resources of oil and gas off Newfoundland will be gone in 30-40 years and the economic impact from the offshore revenues produced from them will not have come to the citizens of Newfoundland, as Canada agreed should happen, and as happened with the resources of other provinces who benefit from the revenues from their oil and gas.

It has always been acknowledged that exploring and eventually producing oil and gas on frontier lands is a risky and uncertain business. The federal and provincial governments should agree that what was projected to happen in the early and mid-1980s did not happen, and therefore the Atlantic Accord needs to be revised to take this into account. Energy is even more important to the Canadian economy now than it was in the 1970s and 1980s. Canada, certainly partially due to the resources off Newfoundland and Labrador (and Nova Scotia) is one of the few fortunate countries to have oil and gas surpluses and in fact to be significant net exporters. This was a key purpose of the Atlantic Accord, and it has been achieved, so surely the great proportion of the offshore revenue benefits should not be going to Canada today and for the next 30-40 years, but should be distributed as planned. This inequity can be resolved and any offset adjustment payments needed to fulfill the original "principal beneficiary" commitments under the Accord paid under the existing mechanisms within the Atlantic Accord. This is a bilateral

Agreement between two governments, not a matter affecting any other government or needing their approvals. It is also an Agreement with fiscal mechanisms that have been acknowledged by the federal government to be outside the equalization program as it is currently structured.

Circumstances combined to thwart the original objectives established by both governments for the Atlantic Accord so an adjusted or a new mechanism must be developed by Canada and Newfoundland to implement their agreed intentions. If Newfoundland receives the benefits from its offshore non-renewable resources, it will have a real opportunity to catch up to national economic standards over the next 20-30 years. The same is true of Nova Scotia. To deny these benefits and opportunities is to abandon Newfoundland and Nova Scotia to dependency on federal-provincial transfers, likely forever. Only vision and leadership and the carrying out of commitments will ensure that the citizens of Newfoundland and Labrador receive the benefits and shared revenues from their offshore resources as expected when their government entered into the Atlantic Accord with Canada.

The economic and fiscal disparities among the 10 Canadian provinces and three territories are an evolving threat to the nation's political, social and economic survival. Yet we are all citizens of the same nation! Situations whereby provinces such as Newfoundland and Labrador, and Nova Scotia may be denied the opportunity to utilize the revenues from their natural resources off their shores to improve their social and economic circumstances, must not be allowed to happen. The "right public policy actions" must be seized and implemented as part of the vision of our political leaders.

Table I
Selected Offshore Fiscal, Operating and Employment Statistics
Newfoundland and Labrador, December 31, 2002

	Hibernia	Terra Nova	White Rose	TOTAL
Total Expenditures (Billions)	$7.5	$3.3	$.5	$11.3
Peak Construction Employment	5,800	2,500	n/a	
Total Current Direct Employment	800	1,000	800	2,600
Average On-Going Operational Employment	650-750	400-450	375-400	1,425-1,600
Field Life in Years	20+	15+	10-15	
Reserve Size (Millions of Barrels)	884	388	230	
Number of Wells	83	24-34	19-21	
Design Production Field Capacity (bbls/day)	217,000	190,000	100,000	507,000
Royalties (Millions to Date)	$140.0	$14.0	n/a	$154.0
Barrels Produced (Million Barrels to Date)	234.0	38.0	n/a	272.0

Exploration Data (As of March 2003):

Number of Wells Drilled	234
Offshore Seismic Data (2D and 3D)	1.3 million kilometers
Exploration Permits (Issued by Federal Government)	3.3 million hectares
Number of Permits	3
Exploration Licenses (Issued by CNOPB)	4.2 million hectares
Number of Licenses	36
Total Work Expenditure Bids (since 1988)	$907 million
Outstanding Work Expenditure Bids	$471 million

Table II
Selected Provincial Fiscal and Economic Statistics
Newfoundland and Labrador, March 2003

Population Estimates for 2002-03

Atlantic Provinces	2,372,555	7.6% of the national total
Newfoundland and Labrador	531,837	1.7% of the national total

Employment

Atlantic Provinces	1,055,000 employed	6.8% of the national total
Newfoundland and Labrador	213,900 employed	1.4% of the national total

Per Capita Fiscal Capacity

Atlantic Provinces	76.1% of the national average
Newfoundland and Labrador	68.5% of the national average

Equalization Entitlements (2002-03)

Atlantic Provinces	$3.5 billion
Newfoundland and Labrador	$904 million

Current Account Revenue (Newfoundland and Labrador Budget 2002-03)

Own Source Revenues	$2,021 million
Federal Transfers	$1,501 million
Total Revenues	$3,522 million

Provincial Debt (Newfoundland and Labrador Public Accounts to March 31, 2002)

Total Public Sector Debt	$7,502 million	$14,054 per capita
Total Public Sector Debt - Including Pension Liability	$10,894 million	$20,408 per capita

Debt Charges (Newfoundland and Labrador Budget 2002-03)

Total	$569 million
Per cent of Own Source Revenues	28.2%
Per cent of Total Revenues	16.2%

Selected Alberta Statistics (2002-03)

Total Revenues	$25.3 billion
Total Debt (net of recently added reserves)	$6.9 billion
Alberta per Capita Debt	$2,286
Debt Charges	$940 million
Debt Charges as a % of Total Revenues	3.7%
Total Resource Revenues this year	$10.3 billion
Per Capita Fiscal Capacity	168.9% of the national average

Royal Commission on Renewing and Strengthening Our Place in Canada

Power Politics and Questions of Political Will: A History of Hydroelectric Development in Labrador's Churchill River Basin, 1949-2002

— Jason L. Churchill

March 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada

Abstract

This report studies the history of attempts to develop Labrador's hydroelectricity from 1949 to 2002, analyses the information, and draws three main lessons from that history. Firstly, Newfoundland has not been able to match Hydro-Quebec's direct and indirect influence in the energy markets. Secondly, the Quebec utility, when directly suited to its immediate needs, has proven sensitive to Newfoundland's demands for redress of the 1969 Churchill Falls contract. Thirdly, there has been a substratum shift in the North American energy markets, which has created new opportunities.

The report then gives a detailed assessment of federal passive and active participation in issues related to hydroelectric development in Labrador. It concludes by making specific recommendations arguing that more effort has to go into capitalising upon the new opportunities in the North American energy markets.

Contents

Introduction and Overview 263
1926-1969: An Abbreviated Story of the 1969 Churchill Falls Contract 264
1972-1979: A New Premier and A New Approach 269
1979-1982: Brian Peckford and the Unbridgeable Chasm 271
1982-1988: The Water Rights Revision Act and A New Hope 274
1989-1994: The Liberals Back in Power and New Possibilities 278
1996-1998: Brian Tobin and the Deregulating Energy Markets 280
1999-2002: The Continuing Evolution of the Energy Markets 281
Past and Present: Summary and Lessons to be Learned 282
Questions Political Will and the Federal Government 284
Recommendations 285

Endnotes 289
Bibliography 307

Introduction and Overview

Based upon a combination of documentary research and conversations with individuals[1], there appears to be three major lessons to be learned from Newfoundland and Labrador's attempts to develop the hydroelectric potential of the Churchill River Basin from 1949 to 2002.[2] The research project will review the major developments that led to the infamous 1969 contract and subsequent attempts to "undo" the contract and reach agreement on developing other hydroelectric sites in Labrador. The paper will begin with a synopsis of Labrador's developed and undeveloped hydroelectric potential. It will then give an historical account of the ebb and flow of negotiations related to the development of the Churchill River Basin from the Premiership of Joseph R. Smallwood to that of Brian Tobin.[3] This will be followed in the conclusion by detailing the three lessons alluded to above. There will also be a detailed assessment of the role played, in both an active and a passive sense, by the federal government in the attempted development of the Churchill River Basin. The paper will conclude with some recommendations that the Royal Commission may wish to suggest to the governments.

Churchill Falls produces approximately 5,200 megawatts (MW) of hydroelectric energy and is the largest single source of energy in Labrador. However, the total hydroelectric potential is in the range of 15,200 MW of power. In addition to the Upper Churchill River site, there are 22 additional hydroelectric sites in Labrador with a combined potential to produce approximately 6,574 MW of electricity. The two largest sites are located on the Lower Churchill River at Gull Island and Muskrat Falls. Together, these two sites have the potential to produce approximately 3,088 MW of power.[4] To those totals must be added the potential of five interprovincial rivers whose headwaters are in Labrador but which run through Quebec's North Shore on their way to the St. Lawrence River. These rivers: St. Paul, St. Augustine, Little Mecatina, Natashquan and Romaine Rivers) have a combined potential to produce approximately 3,430 MW of power.[5] In the past, Quebec has expressed an interest in developing some or all of those rivers but they are unable to do so without an agreement with the Government of Newfoundland and Labrador related to the headwaters and flooding.[6]

Labrador's vast hydroelectric potential was often viewed in the province as a potential Eldorado – a possible panacea for its economic ills and a means to finally achieve the long cherished dream of a diversified economy away from traditional dependence on the cod fishery. To this end, a contract was signed in 1969 between Hydro-Quebec and the Churchill Falls (Labrador) Corporation (CFL Co.) - a subsidiary of the British Newfoundland Company (BRINCO) - to begin hydroelectric development in the Churchill River Basin.[7] The Quebec and Newfoundland and Labrador governments were not direct signatories, but both had to pass enabling legislation to allow the contract to be concluded.[8] The 1969 contract has subsequently generated much controversy and ill-feeling between the two provinces. Before discussing the events and politics which led to the contract, it is necessary to highlight some of the most controversial aspects of the Churchill Falls Contract.

The first of the controversial articles provided that the courts of Quebec, not Newfoundland and Labrador, would hear disputes related to the contract. The Supreme Court of Canada was to act as the final court of appeal. As discussed below, this would prove to have grave consequences for Newfoundland and Labrador's attempts to find judicial redress for the 1969 contract. Second, Hydro-Quebec insisted that an automatic 25 year extension be included in the

40-year contract, during which time it would get to purchase power at a reduced price. In lieu of an escalation clause, the contract stipulated that there was to be a reduction in the price paid by Hydro-Quebec for Churchill Falls power. Hydro-Quebec's initial price of approximately 3.0 mills (3/1000^{ths} of a Canadian dollar) per kilowatt-hour (kwh) was to be periodically reduced until 2016 when it would reach a base price of 2.0 mills (2/1000^{ths} of a Canadian dollar). It was to remain at that price until the termination of the contract in 2041.[9]

The lack of an escalation clause and the decreasing pricing arrangement meant that by 1996, Hydro-Quebec was averaging $600 million in gross revenues per annum for the previous 20 years. Over the same period, Newfoundland and Labrador averaged $23 million per year. In statistical terms, Hydro-Quebec reaped 96 per cent of the benefits from Churchill Falls, while the owner of the resource received a scant 4 per cent.[10] In addition, throughout the 1970s and 1980s the province of Newfoundland and Labrador had to spend nearly $700 million on alternative energy sources to compensate for not being able to access Churchill Falls power.[11]

Pricing arrangements also had the potential to cause further controversy. As will be discussed below, having to sell the power at less-than-market prices that did not keep up with basic inflation threatened CFL Co.'s long-term financial viability. The contract stipulated that if the plant operators, CFL Co., became insolvent, Hydro-Quebec could have assumed full control of the entire Churchill Falls operation.[12] This would have left the owner of the resource, the province of Newfoundland and Labrador, with no control over the operation of the power plant. As a result, it would not receive any further financial benefits from the sale of its power in the North American energy markets. As will be discussed, it would take until 1998 for CFL Co.'s financial position to be finally solidified.

1926-1969: An Abbreviated Story of the 1969 Churchill Falls Contract

The road to the 1969 contract actually began in the early years of the twentieth century. Former Premier Joseph R. Smallwood first seriously entertained the idea of developing the Churchill River in 1926. At the time, Newfoundland and Labrador was preparing its case for the British Judicial Committee of the Privy Council claiming ownership of Labrador.[13] During the pre-Confederation debates at the Newfoundland National Convention from 1946 to 1948, it was evident that the economic development of Labrador, including its hydro resources, remained of paramount importance to Smallwood. He led a delegation to Ottawa to discuss possible terms of union between the two countries and claimed that the most important aspect of the Canadian offer was in the form of 'Clause 22. This entailed a promise to conduct a comprehensive economic survey of the potential of both the island and mainland portions of what would be the new province. According to Smallwood, Newfoundland and Labrador on its own could not afford such a lavish survey.[14]

Concerted efforts directed towards the development of Labrador's vast hydroelectric potential began in 1952 . That year Smallwood, after failing to find sufficient interest in North America, went to Great Britain to attempt to find backers to develop the Churchill River Basin. Meetings with such influential British personalities as Prime Minister Winston Churchill and the powerful Rothschilds banking family led in 1953 to the formal creation of BRINCO.[15] Five years later, BRINCO created CFL Co. for the purpose of developing the massive Churchill Falls project.To help finance the project and the company, Hydro-Quebec initially bought a 17 per cent share in CFL Co.[16] The 1958 CFL Co. Agreement granted the corporation exclusive rights to develop Labrador's hydroelectric potential. In 1961 it was further granted a 99-year water lease to use all the usable waters in the Upper Churchill River Basin. As will be discussed below, the lease stipulated that Newfoundland and Labrador was to be granted preferential access to power, providing such actions were feasible and economic to complete.[17]

By 1961, after BRINCO and CFL Co. were fully established, finding an adequate market for the enormous energy produced by the Churchill River was of paramount importance. The neighbouring province of Quebec had access to the largest population cluster in North America – the industrial heartland of Canada in Southern Ontario and the Eastern Seaboard of the United States, with its industrialization and major centres like New York City. It was here that Newfoundland and Labrador's perpetual geographic predicament became evident. The mainland section of the province, Labrador, is bound by the cold North Atlantic on the east and is flanked by Quebec on its western border. As Smallwood was to discover, the only efficient way to get the electricity to market was through Quebec's territory.[18]

Traditional rivalries between the neighbouring provinces related to ownership of the Labrador interior became a significant side-issue. The two provinces had a long and arduous fight over the matter dating back to the nineteenth century. In 1927 the highest court in the British Empire, the Judicial Committee of the Privy Council, defined the present-day boundary when it decided that ownership of the Labrador peninsula belonged to Newfoundland.[19] Quebec's Premier of the day, Alexandre Taschereau, said that Quebecers could take consolation from the fact that Newfoundland and Labrador could not have developed Labrador's hydroelectric potential without the direct involvement of Quebec.[20] His sentiments presaged the notion of the 'revenge of geography' expounded by Quebec journalist Paul Sauriol. In 1968, Sauriol stated his opinion that, "In spite of the Privy Council decision, these falls [Churchill Falls] [were] so much a part of Quebec territory that it [was] impossible to exploit them without this power being used by Quebec."[21]

As this report will show, Quebec negotiators were skillfully able to utilise the 'revenge of geography' to extract the onerous terms of the 1969 Churchill Falls contract and to prevent the province from reaching deals with external groups to develop the rest of the potential of the Churchill River Basin. As will be discussed in numerous places, the Quebec negotiators were aided by successive federal governments that both actively and passively failed to enact legislative measures which would have granted Newfoundland and Labrador unfettered access to the North American energy markets. Federal officials often provided Newfoundland and Labrador with other forms of assistance, but their measures consistently stopped short of providing critical access to markets. Former provincial and federal cabinet minister John Crosbie has stated that the intractable problem for Newfoundland and Labrador in negotiating with Quebec was that "Canada lacked any sensible or equitable national policy with respect to the development of hydro power energy and its transmission."[22] The lack of access meant that the province had to negotiate at a severely disadvantaged position and it also meant that other forms of federal assistance proved to be ineffectual, impractical and often academic.[23]

Throughout the 1960s, BRINCO and Hydro-Quebec had long and arduous negotiating sessions which usually ended without a final deal being concluded.[24] During the decade, BRINCO and the Newfoundland and Labrador government sought options to improve their negotiating position and gain access to the North American markets. One such possibility to emerge in 1962 was Prime Minister John G. Diefenbaker's idea of establishing a National Power Grid. The idea was to link the various sources of electrical-energy in the country with areas, such as the industrial heartland of Southern Ontario, which consumed large amounts of energy. Diefenbaker established a Committee on Long Distance Transmission to discuss the feasibility of such a project.[25]

From the outset, the Government of Quebec was opposed to establishing the National Power Grid. The position of the Quebec government was that electrical transmission was within the realm of the provinces and the federal government did not have any part to play. With its vast hydroelectric resources and its geographic position, Quebec was integral to the success of any national program. Without Quebec's participation, it would only be possible to establish regional interconnections.[26] It would take five years for the feasibility assessment of the National Power Grid to be completed.

Meanwhile in 1964, Premier Smallwood was being pressured by Rene Levesque to nationalize BRINCO in order to enable the Governments of Newfoundland and Labrador and Quebec to jointly develop the project. Smallwood refused such an option, due in part, to loyalty to BRINCO shareholders (including himself and Winston Churchill) and to fears about what such a move would do to Newfoundland's international business reputation.[27] Nationalisation was proposed as a means for Hydro-Quebec to buy the electricity at a cheaper mill rate to save the utility upwards of $32.2 million annually. BRINCO, as a private corporation, was required to make profits sufficient to pay after-tax dividends; a nationalized corporation would not have to account for that expense.[28] Former provincial and federal cabinet minister, John Crosbie stated that when Smallwood rejected Levesque's nationalisation offer, "a golden opportunity disappeared".[29] The argument being that had the project been jointly developed, the subsequent profits would have also been shared equitably.

In lieu of nationalisation, Smallwood explored other options to thwart Quebec's 'revenge of geography'. One such idea explored in 1964 was the so-called Anglo-Saxon Route. This involved running power lines through Newfoundland and Labrador and the Maritimes in order to bypass Quebec territory. Unfortunately for Newfoundland and Labrador and BRINCO, it was concluded that the $941,000,000 project would raise the price of electricity in the U.S. market to the extent that it would no longer be sold at a competitive rate.[30]

In the summer of 1965, the previous question of nationalisation of BRINCO was solved for Levesque by the federal government. Despite Smallwood's refusal to nationalize BRINCO, a cheaper mill rate was secured for Hydro-Quebec when the Public Utilities Income Act was changed. There was a 50 per cent to 95 per cent increase in the transfer to the provinces of taxes collected from utility companies. Newfoundland and Labrador passed the additional savings on to BRINCO which consequently allowed the Corporation to sell electricity to Hydro-Quebec at a reduced price.[31]

This federal action did not improve Newfoundland's disadvantaged bargaining position. In 1966, a frustrated Smallwood lashed out and threatened to bypass the Quebec government and appeal directly to Prime Minister Lester Pearson to declare the Churchill Falls project to be in the national interest. Smallwood drafted a letter for the Prime Minister formally requesting:

> the Government of Canada to invoke Paragraph (c) of Clause 10 of Section 92 of the British North America Act. If the Government of Canada would proceed forthwith to build a transmission line from Churchill Falls to a point where it would tie in with power grids in Eastern Canada it would ensure an immediate start on the construction of the Churchill Falls power project itself. In that case the power would be in production and available to consumers in Canada in 1971.[32]

This declaration would have enabled the federal government to transcend provincial jurisdiction.[33] Theoretically, this would have allowed for the construction of transmission lines through Quebec and directly to the markets in Canada and the New England states. However, based on available evidence, it does not appear that the request was ever formally presented.

Former BRINCO President, Henry Borden, claimed that he and associates convinced Smallwood to defer making the request until news of Quebec's response to a proposal was received. The positive response from Quebec in October 1966 made Smallwood's request irrelevant. Another explanation given by former Smallwood cabinet minister and long-time friend, Frederick Rowe, argued that fears of Quebec nationalist terrorism was enough to dissuade Smallwood from proceeding.[34]

Of the various explanations presented, the one most relevant to the potential role of the federal government was related by Newfoundland and Labrador lawyer, Cabot Martin, who had interviewed Smallwood. Martin was told the Premier met Pearson personally to discuss the option but was rejected before he could formally present the request. Smallwood stated:

> Mr. Pearson said, 'Joe, I know why you are here and if you ask me I'll have to say yes, otherwise we would not really be a country. But I'm asking you not to ask me because we will not be able to keep the towers up.' Joey paused, then looked at me as if to ask 'What would you have done?' and said 'So I didn't ask him.'[35]

There are two major implications of the stories related above. The first is that Newfoundland's interest was set-aside in the name of national unity and due to fears of nationalist violence in Quebec. If this is so, subsequent ramifications of the eventual 1969 contract illustrate that the province has paid, and continues to pay, a phenomenal price for its contribution to national unity. The second implication is that the ultimate power to make the request still resided with Smallwood who appeared to have the option of pressing the issue further. It was Smallwood who decided to either wait for a Quebec response, and/or not ask Pearson due to fears of the consequences of his request to have the project declared in the national interest.

When Smallwood did not press the issue of establishing a power corridor through Quebec, the province failed to achieve a stronger bargaining position for BRINCO with Hydro-Quebec. Despite the difficulties inherent in negotiating at a disadvantaged position, a Letter of Intent was signed in October 1966 which allowed construction to begin at the Churchill Falls site.[36]

The signing of the 1966 Letter of Intent did not ensure the stability of either BRINCO or the Churchill Falls project. The final agreement would entail another two-and-a-half years of arduous negotiations. By the late 1960s it also became evident that access to the North American energy markets was not possible without Quebec dictating the terms under which it would transpire. A final blow came in 1967 when the committee examining the feasibility of establishing a National Power Grid concluded that there "was no doubt an improved network would assist in the marketing of Nelson [River hydro-electric project in Manitoba] and Churchill River power." Despite this, the benefits of the plan overall were perceived as marginal and a further study was deemed unwarranted.[37]

It was also clear in the final years of the 1960s that Quebec was anxious to develop the Churchill River Basin. Economists at the time were predicting that without the power development, Quebec would have to begin rationing electricity within the decade.[38] Despite Hydro-Quebec's apparent need for Churchill power, it was able to secure such favourable terms because BRINCO did not have the luxury of waiting. BRINCO was in dire financial straits and needed to conclude a deal quickly. As described in Phillip Smith's book *BRINCO: The Story of Churchill Falls*, the intervening years were difficult on the financial resources of BRINCO who continued to spend millions in the expectations of a final agreement. By 1968, BRINCO was experiencing serious cash flow problems and it became necessary to arrange a second mortgage on the Churchill Falls development. Unfortunately for Newfoundland and Labrador, neither the province nor BRINCO could afford to buy into the second mortgage.[39]

With Quebec in a more secure financial position, it was able to afford contributing to the second mortgage and consequently increased its portion of CFL Co. to 34.2 per cent. Newfoundland and Labrador could not match the economic strength of Quebec and Smallwood agreed to the mortgage bonds plan.[40] By 1969, the bargaining capacity of BRINCO and Newfoundland and Labrador against Quebec was virtually non-existent. The stark choice was to either conclude an agreement on Hydro-Quebec's terms or walk away from the project. BRINCO was on the verge of bankruptcy and would have failed had the 1969 agreement not been signed.[41] Smallwood wanted the development and, based upon available evidence, did not at any point during the 17 years of negotiations order BRINCO to leave discussions.

Hydro-Quebec's negotiators could hardly be criticised for utilising its privileged position to achieve the best possible deal for their company and province. They recognised the tremendous negotiating advantage which geography and languid federal governments had accorded them, and used their advantageous negotiating position to the utmost. The consequences resulting from the inequitable negotiating positions is evident in the onerous terms of the eventual 1969 contract which was described at the beginning of this section.

Newfoundland and Labrador politicians and pundits have long bemoaned the contract and offered up various scapegoats, including Hydro-Quebec, the federal government and Premier Smallwood. However, in the end, responsibility for approval of the deal rested with the province's elected officials in the House of Assembly, all of whom voted in favour of the agreement.[42] In defence of the Members of the day, it must be remembered that it was the end of a 17-year struggle to begin work on the massive Upper Churchill project and it was four years from the 1973 energy crisis.[43] With the signing of the deal completed, the stage was set for decades of frustration and lamentation in Newfoundland and Labrador over the lost financial potential of Churchill Falls.

1972-1979: A New Premier and A New Approach

The Churchill Falls Power Plant officially opened in mid-June 1972. Prime Minister Pierre Elliott Trudeau, Quebec Premier Robert Bourassa, Mr. William Mulholand (President and Chief Executive Officer of BRINCO and CFL Co.), and the new Newfoundland and Labrador Premier Frank Moores were all in attendance at the inaugural ceremonies.[44] Within the next two years, the energy crisis related to turmoil in the Middle-East oil-producing regions caused energy prices to surge and the inequities of the 1969 contract became obvious.

The story of the attempted development of the Lower Churchill River begins in September 1972 when BRINCO, using the Upper Churchill model, made a formal offer to the Moores' government to develop the Gull Island and Muskrat Island sites. The Moores' administration refused to accept the idea of being tied into a long-term contract with Hydro-Quebec. In 1974, after two years of failed negotiations, Moores decided to nationalise the CFL Co. portion of BRINCO.[45] Nationalisation was presented as a matter of principle; government needed control over resources in order to mould the province's future. At a cost of $160 million, nationalisation of BRINCO was an expensive exercise in political philosophy. The key argument underlying the move was that the public interest of the province could differ from the private interest of the company. However, Section 9(5) of the 1953 BRINCO legislation prevented the export of any power without the explicit consent of the government.[46]

A former Conservative member of the Moores' administration, the Honourable William Marshall, considered the initiative to have been a great mistake as it "compounded the mistake" of the 1969 power contract. While costing an enormous amount of money, it did not improve the province's bargaining position. Marshall stated that the only thing accomplished was provincial money being used to buy out private shareholders. Each year, the province continued to pay the interest on the money borrowed to finance the deal while the Lower Churchill remained undeveloped.[47] The measure failed because Newfoundland and Labrador's core problem of access to markets without terms being dictated by Quebec remained unchanged.

By the mid-1970s, negotiations had become increasingly complex due to inflationary pressures, the energy crisis and the overt inequities of the 1969 Churchill Falls Contract. In February 1975, after lengthy negotiations, the federal government committed to provide $425 million towards a $1.842 billion Gull Island project. While issues related to electrical transmission were not secured, the federal government was illustrating a strong willingness to provide financial assistance to Newfoundland and Labrador. However, by August 1975, inflationary pressures had forced the cost of the project up to approximately $2.318 billion. As a result, the Newfoundland and Labrador government had to order a complete re-examination of the project and associated costs.[48]

The federal government had not replied to revised plans by November 1975, and the Moores' administration was faced with a difficult conundrum. In order to stave off a predicted energy shortage that was forecast to develop within six years, a decision had to be made immediately concerning going ahead with Gull Island or investing in costly thermal alternatives. Beyond the environmental and financial considerations, MHA John Crosbie stated that the thermal option would leave the island "permanently isolated" from its energy sources in Labrador. He added that it also lessened the possibility that the Gull Island site would ever be developed.[49] Without hydroelectric powerlines running to the island portion of the province or unfettered access to the North American energy markets, Hydro-Quebec would once again have been left in a position to dictate the terms of any contract. By May 1976, relations with Quebec soured and the Gull Island project returned to a state of suspension.[50]

The increasing demand for power, combined with the problems noted in the previous paragraph, led the Moores' administration to request 800 MW of power from CFL Co. The 1969 contract stipulated that CFL Co. was entitled to recall up to 300 MW of power with three years notice. CFL Co. had previously recalled 100 MW to be utilised in Labrador. The remaining 200 MW was insufficient to meet Newfoundland's growing needs. Consequently, the government asked for 600 MW in addition to the 200 MW. Newfoundland and Labrador insisted that it receive power at the same price as it was being made available to Hydro-Quebec in the 1969 contract. Hydro-Quebec did not refuse the request for power, but stipulated that the energy ought to have been sold "at a price that would cover its own replacement cost."[51]

On 6th August, 1976, Crosbie, in his capacity as Minister of Mines and Energy, formally petitioned CFL Co. to provide the province, beginning 1 October 1983, with 800 MW of power from the Upper Churchill. On 31 August, 1976, CFL Co. President and Chief Executive Officer, J.W. Beaver, responded that the company was unable to comply with the request.[52] CFL Co.'s refusal to comply with the request led to the first of a series of court cases related to Churchill Falls.

The crux of the court case, and the request, rested upon the 1961 CFL Co. Water Lease Agreement mentioned above. Section 2(e) of the Agreement stipulated that "the request of the government consumers of electricity in the province shall be given priority where it is 'feasible and economic' to do so." Critical to the case was the interpretation of the phrase 'feasible and economic'. CFL Co. argued that compliance with the request would render it unable to fulfill the terms of the 1969 contract with Hydro-Quebec and therefore it "would not be feasible and economic to provide 800 MW of electric power to the Government." In a similar fashion, Hydro-Quebec argued that the Newfoundland and Labrador government did not have the right to interfere with the contract between itself and CFL Co. Section 1.2 of the 1969 contract stated that it was to be governed by the Laws of Quebec.[53] The final verdict in the trial was not delivered until 1982 and will be discussed below.

Meanwhile, there were numerous other attempts and near-breakthroughs during Moores' premiership. In the late 1970s, Quebec Premier Rene Levesque made a special trip to St. John's to attempt to entice Moores into accepting a deal to start hydroelectric development on the Lower Churchill River. Levesque's proposal involved a trade-off; Quebec was willing to be generous, in terms of benefits, in exchange for Newfoundland and Labrador relinquishing any future rights to challenge the 1969 Churchill Falls Contract. Meetings appeared on the verge of success as the two Premiers were planning on making a joint announcement. There was, however, a rub. On this occasion Moores' Minister of Mines and Energy, Brian Peckford, was only informed of the Premier's plans just previous to the proposed announcement. Peckford emphatically rejected the idea of giving up in perpetuity any rights to seek redress of the infamous 1969 Contract. His emphatic objections were sufficient to thwart the proposed deal.[54]

On another occasion, Peckford was engaged in positive negotiations with his Quebec provincial counterpart Guy Joron. Peckford described Joron as being "extremely understanding of [Newfoundland's] situation". With the tacit permission of Premier Levesque, Joron had appeared willing to contemplate changes to the 1969 contract as long as it was part of a broader project to develop the Churchill River Basin. However, this idea of linking changes in the Upper Churchill contract to develop the sites on the Lower Churchill River brought strong opposition from Hydro-Quebec officials who thwarted the efforts of the Quebec Cabinet Minister.[55]

In 1978, there appeared to have been a substantial step taken towards the further hydroelectric development in Labrador when the Lower Churchill Development Corporation (LCDC) was established. It was owned 51 per cent by Newfoundland and Labrador Hydro and 49 per cent by Canada.[56] It's mandate was to develop the Gull Island and Muskrat Falls sites and supervise the construction of an accompanying transmission line. While Ottawa played a critical role in LCDC's creation, it still refused to deal directly with Newfoundland's core problem of access to the energy markets.

1979-1982: Brian Peckford and the Unbridgeable Chasm

Replacing Frank Moores as Premier in 1979, the frustrations felt by Peckford during his time as Newfoundland's Minister of Mines and Energy intensified. A change in Premiers brought with it a change in the province's stance on negotiations with Quebec. Moores' approach was to demand package deals that linked further development of the Churchill River Basin to changes in the 1969 Churchill Falls contract.

In contrast, the Peckford approach was to treat the two issues of changes to the Upper Churchill Contract and development of the Lower Churchill River separately. Negotiations became predicated upon the initial resolution of two key issues: the price paid by Hydro-Quebec for Upper Churchill power and Newfoundland and Labrador's right to recall power from the Upper Churchill.[57] There would be no further hydroelectric development in Labrador until grievances concerning the Upper Churchill contract were settled.

Peckford's entrenched position was met with an equally obstinate Quebec position which refused to consider reopening the 1969 contract. The attitude of Quebec negotiators was that the 1969 contract was freely entered into and those who signed it were obligated to see the contract through to its completion. The concern expressed by Hydro-Quebec and Quebec leaders, such as Rene Levesque, was that opening an established contract to renegotiation would set a precarious precedent. It would not have sent a positive message to potential investors and the international business community for Hydro-Quebec to begin changing established contracts. As will be illustrated below, Quebec's attitude towards the sanctity of the contract found sympathy within the federal government. Federal officials, such as Energy Minister Marc Lalonde, also maintained that negotiation and linkage represented the only way forward in terms of further development of Labrador's hydroelectric potential.[58]

The irreconcilable positions came to a head in April 1980 when an exasperated Premier Peckford appealed directly to Prime Minister Trudeau to have the federal government:

> exercise its jurisdiction over the interprovincial transmission of hydro electricity... [and to] take steps to permit [Newfoundland and Labrador] to move electrical energy across Quebec in the same way, federal jurisdiction [had] been exercised to permit the free movement of oil and gas across provinces, including Quebec.[59]

However, Peckford's request did not lead to any immediate federal legislative action to ensure the province gained access to the North American energy markets.[60]

In the House of Commons, the Federal Minister responsible, Marc Lalonde, stated that the "most sensible, reasonable, intelligent, economical solution [was] the transmission of the Labrador power through the Hydro-Quebec network."[61] However, in pragmatic terms, such access would have to be negotiated as the federal government perceived a key infrastructural difference between oil and gas and electricity. Lalonde claimed that in the case of electricity there was no practical way to force extra capacity through Hydro-Quebec's infrastructure if the powerlines, or portions thereof, were at, or near, capacity. Similarly, the federal government could not 'reserve' capacity on existing or newly constructed lines.[62] In lieu of utilising existing infrastructures, the federal government maintained that the only practical solution to Newfoundland's theoretical argument was to construct a separate 'dedicated line' to move its power through Quebec territory.[63]

In 1982, two years after Peckford's request, the federal government passed Bill C-108: amending the National Energy Board Act (no.3), which theoretically granted Newfoundland and Labrador the access it had been requesting. The legislation expanded powers of the National Energy Board (NEB) in order to potentially expropriate land for a separate power corridor.[64] Both Newfoundland's Minister responsible, William Marshall, and the federal Minister responsible, Marc Lalonde, realised that economic feasibility prevented the legislation from having any practical application for the province. Newfoundland and Labrador would be left to largely finance any initiative and would have to contend with environmental and other road blocks which the Quebec government could have erected to forestall construction of the dedicated line. Marshall said the legislation represented "a cynical act on the part of the Government of Canada."[65]

Frustrations within the Peckford administration continued to mount as action had still not been taken on the LCDC's July 1980 recommendation to begin on the Lower Churchill River sites, complete with a hydroelectric powerline to the island portion of the province.[66] While technically possible, economic feasibility considerations continued to demand wheeling rights through Quebec territory.[67] Costs associated with building a separate dedicated line would have made the project uneconomic to complete.

The federal government, for all its assistance, had not provided a means by which power from Churchill Falls would pass unfettered through Quebec territory. Failed negotiations with Quebec and insufficient actions on the part of the federal government meant that the LCDC faced critical "legal, legislative and/or political solutions" that were beyond its mandate. As a result, in 1982 the LCDC decided to curtail operations "until a more favourable climate for development [was] established."[68] The federal government had provided substantial financial and technical assistance but it did not provide practical political and/or legislative assistance to ensure Newfoundland and Labrador gained access to the North American energy markets.

The curtailing of LCDC operations in the early 1980s was especially unfortunate for Newfoundland and Labrador as negotiators were close to signing major contracts with the Power Authority of the State of New York (PASNY) and the State of New Hampshire. Hydro-Quebec attempted to dissuade PASNY officials from dealing with Newfoundland and Labrador's representatives as Quebec claimed the ability to be able to provide all of PASNY's energy requirements. Despite Hydro-Quebec's efforts, PASNY signed a letter of understanding with the province stating it would be interested in buying power from Labrador that was excess to Canadian needs.[69] Deals with PASNY and New Hampshire were, however, contingent upon getting Labrador power to the marketplace and, once again, the only economically feasible way to get the energy to market was through Quebec territory.

Premier Peckford once again wrote to Trudeau and stated that the PASNY letter had transformed "the transmission issue from what you [Trudeau] viewed as 'hypothetical' to one of immediate practical importance to [Newfoundland and Labrador] and to our country." Trudeau's response was that the request raised many complex issues but the federal government was ready to act if Quebec was blocking Newfoundland's access to markets.[70] No immediate federal legislative action materialised and, as a result, the proposals from the New England markets became academic.

In 1982, the federal government continued to offer to play the role of mediator in negotiations between Quebec and Newfoundland and Labrador. Minister Lalonde continued to insist that the only practical solution to the perpetual impasse was negotiation; the other option would have entailed "more years of endless and possibly fruitless litigation between the two provinces." Lalonde further claimed that Levesque was willing to negotiate and compromise to some extent on the Upper Churchill, but not to directly reopen the contract. The idea, as previously mentioned, was to either develop side deals to augment returns to Newfoundland and Labrador or to propose a generous deal for the province on subsequent hydroelectric developments in Labrador to help compensate. Lalonde said that the juggernaut during the negotiations was Peckford's obstinate commitment to the settlement of old grievances related to the Upper Churchill before any discussion could ensue on new developments.[71]

Federal offers of mediation were soundly rejected by the Peckford administration. Minister Marshall called into question Ottawa's ability to be an impartial mediator and argued that the Trudeau administration had "done enough harm to [Newfoundland and Labrador] without [the government] voluntarily submitting to further punishment. If [Lalonde wanted] to help, give [Newfoundlanders and Labradorians] the same rights as all Canadians and stop attempting to force [the province] to negotiate with Quebec." He further added that, "if parties [could] not negotiate on equal footing, inequities [were] bound to result."[72]

1982-1988: The Water Rights Revision Act and A New Hope

By 1982 the lack of progress in negotiations described above caused the Peckford administration to try another judicial tactic. This came in the form of the Water Rights Revision Act which attempted to reclaim water rights granted in CFL Co.'s 1961 Water Lease. The Newfoundland and Labrador government considered the lease to be "the cornerstone of [the] development. Without it nothing could have been done."[73] Peckford denied the act was intended to harm Quebec interest, to recapture 5,200 MW of power or to reclaim $600 million in lost revenues. Instead it was presented as an action taken by a province without any apparent alternatives left open to it through either negotiations or direct federal action. Peckford further pledged that the legislation would not come into force until the Supreme Court of Canada ruled on its validity.[74] The crucial question to be answered by the courts was whether the legislation was within the constitutional powers of the province to enact; if so, it would be considered permissible and *intra vires*. Alternatively, if the courts claimed it was beyond the power of the province to enact, and thus considered *ultra vires*, it would become null and void.

The Newfoundland and Labrador Court of Appeal decided that the legislation was *intra vires* of the Province of Newfoundland and Labrador.[75] There remained a substantial hurdle to overcome and that was the Supreme Court of Canada which would ultimately determine the constitutional validity of the proposed legislation. The province was supported in the Canadian Supreme Court case by the Attorney Generals of Manitoba, Saskatchewan and British Columbia who intervened to present arguments in favour of Newfoundland and Labrador.[76]

Newfoundland and Labrador suffered a major setback in September 1982, when the federal government decided to intervene in the case on the side of Quebec. Ottawa's stance was that the legislation had extraterritorial overtones which encroached upon "exclusive federal powers, in particular their powers to legislate trade and commerce and interprovincial works and undertakings."[77] Federal interference at a critical juncture outraged Newfoundland's politicians as they feared that such action was likely to sway the Supreme Court to rule in Quebec's favour.[78] It would take until May 1984 for the Canadian Supreme Court to finish it deliberations.

In the same year, 1982, the Canadian Constitution was repatriated from Great Britain. It contained an amendment meant to appease concerns from Western Canada concerning control over the energy industry revenues that could be directed to economic development. When this amendment, Section 92A, was being negotiated, a team of lawyers from Newfoundland and Labrador successfully agitated for the inclusion of electric energy in its provisions. As a result, Section 92A (1) granted the provinces the right to make laws related to "development, conservation and management of sites and facilities in the province for the generation and production of electrical energy." It further granted provinces the right to pass laws related to raising money by any mode, including taxation, from facilities and sites within a province for the generation of electricity.[79]

Political scientist William Moull has argued that while the amendment was Western Canadian in origin, Newfoundland and Labrador may have found "powers conferred by Section 92A... helpful in its continuing dispute with Quebec over the export... of Churchill Falls power."[80] However, based upon documentary research and interviews with various individuals, it does not appear that there has been exhaustive measures taken by successive Newfoundland and Labrador governments to capitalise upon the powers granted by Section 92A.[81] As will be discussed below, Premier Clyde Wells through the Electrical Power Control Act attempted to lay the groundwork by which the province could have used the new provisions, but no firm actions have been taken.

The judicial action associated with the Water Rights Revision Act garnered the attention of Quebec politicians and Hydro-Quebec officials. Concern on the part of Quebec led in February 1984 to an extraordinary Letter of Intent being signed by Vic Young, Chairman of Newfoundland and Labrador Hydro (NL Hydro) and Jean Bernier, Secrétaire Général Hydro-Quebec. For the first and only time, Hydro-Quebec made a formal signed declaration stating, in the preamble "the necessity of a fair and equitable return to Newfoundland as the owner of the Churchill Falls resource." This concession was elaborated upon in Section 2.1 which stated:

> Bearing in mind the need to reach a compromise approach to a more equitable return to Newfoundland as the owner of the hydraulic resources of the Upper Churchill, the parties agree to devise a formula whereby Newfoundland would receive a fair and equitable return for the electricity produced. Taking into account the need to adapt to terms of existing arrangements to the new reality which has arisen since the original arrangements were entered into.[82]

Section 2.2 stated that Hydro-Quebec would agree to "additional recapture by Newfoundland... at energy prices no less favourable than those paid by Hydro-Quebec." There was also an agreement to review the renewal clause of the 1969 contract - the 25 year extension, and to ensure the financial viability of CFL Co.[83]

In return, Hydro-Quebec wanted recognition of the crucial role it played in terms of assumed risk relating to the Upper Churchill project. It also sought an end to all judicial and obstructionist actions taken by Newfoundland and Labrador in federal court and at National Energy Board hearings relating to the export of energy by Hydro-Quebec. As well, the Quebec negotiators wanted the Water Rights Reversion Act revoked. Once the issues noted above were settled, the parties agreed to negotiate further development of hydroelectric resources on the Lower Churchill River and the rivers flowing to Quebec's Lower North Shore. It was hoped that an agreement would have been concluded by 30 March, 1984. Due to its sensitive nature and major concessions, there was a secrecy clause which prevented the agreement from being made public.[84]

Those efforts were followed in May 1984 with a telex from Rene Levesque to Peckford stating that Quebec was willing to consider significant changes to the Upper Churchill contract. Newfoundland's Minister Marshall wrote to his Quebec counterpart, Yves Duhaime, seeking clarification of what Levesque's telex meant in concrete terms.[85]

Quebec's offer was worth approximately one billion dollars to Newfoundland and Labrador. Duhaime described the deal as reasonable, substantial and one which merited considerable attention. The benefits to Newfoundland and Labrador included: an increase in revenues from the Upper Churchill project from $50 million to approximately $100 million, giving the province an additional 500MW of power over the 300 MW it was already entitled to, and guaranteeing the long-term economic viability of CFL Co. through an approximate

$130 million investment from Hydro-Quebec. In exchange Hydro-Quebec wanted the rights to purchase power from sites to be developed on the Lower Churchill River.[86]

In less than 72 hours the Newfoundland and Labrador government dismissed the offer as nothing more than a token gesture. Duhaime said that the quick rejection of Quebec's offer was at the same time both regrettable and upsetting.[87] Newfoundland and Labrador officials broke down Quebec's aggregated figures and argued that Quebec's offer consisted of an additional $2.5 million per year from the lease and access to 380 to 500 MW of power. The Newfoundland and Labrador government was prepared to accept a 50:50 split. In contrast to the $2.5 million per year, the Newfoundland and Labrador government sought upwards of $400 million in annual revenues. Similarly, the additional power was insufficient to construct a transmission line to the island, and the government thought the province was entitled to approximately 2,400 MW of energy. The Quebec proposal also lacked any mention of a 25 year reduction in the original contract.[88] With Newfoundland's rejection of Quebec's apparent final offer, further hydro development in Labrador remained stalled and both sides eagerly awaited the Supreme Court decision.

After several delays, the Supreme Court of Canada rendered its decision on 3 May, 1984. The Court allowed extraneous evidence, such as governmental publications and speeches by public figures, to disagree with the Newfoundland and Labrador Court of Appeal and its supporters. The federal court ruled that the "pith and substance" of the Act was *ultra vires* and that the proposed statute was "colourable legislation aimed at the 1969 Power Contract."[89]

Constitutional expert Peter Hogg explains that the issue of "colourability" was used by the courts to refer to governmental legislation which on the surface was clearly within the jurisdictional realm of a government to enact. Such legislation when brought into effect, however, was designed to accomplish goals that were external to the legislation itself and outside the actual ability of a government to legislate. The Water Rights Reversion Act was clearly within the constitutional powers of the province to enact. Nonetheless, the federal court deduced that the statute was, in reality, meant to prevent the sale of CFL Co. electricity to Hydro-Quebec at below-market-prices. As the 1969 power contract was adjudicated in the courts of Quebec, it was beyond the ability of Newfoundland and Labrador to effect through 'legitimate' legislative means.[90]

The Canadian Supreme Court decision reflected the position taken by Hydro-Quebec and the federal government that the Act constituted interference with the existing contract between two provinces.[91] Newfoundland and Labrador, in attempting to find judicial redress, suffered another serious loss and the idea of colourable legislation would have further consequences during Clyde Wells' Premiership.

However in 1984, there emerged a new reason for optimism with Brian Mulroney and a reinvigorated Progressive Conservative Party. The latter years of the Trudeau administration were characterised by severe intergovernmental disputes and antagonistic federal-provincial relations. When Mulroney was elected Prime Minister, there was a hope in Newfoundland and Labrador that he could facilitate a solution to the longstanding dispute over the Upper Churchill Falls contract which could lead to the development of other hydroelectric sites in Labrador.

Expectations were created, in part, due to Mulroney's pre-Prime Ministerial rhetoric. Published in 1983, Mulroney's personal and political manifesto, *Where I Stand*, stated that the 1969 contract could not "remain unchanged for its duration." He went on to claim that while the duly signed contract was legitimate in a "strictly legal" sense, it was not morally supportable in terms of convention and it showed an obvious "inequality and absence of fair play." The above statements were followed by a line which must have heartened a beleaguered Peckford administration and its supporters. Mulroney emphatically stated, "Simple decency and the most elementary spirit of justice demand its immediate renegotiation."[92] Similarly in December 1984, newspapers reported that Mulroney was eager to resolve the Churchill Falls issue and that he "promised to tell the Quebec government that the 65 year fixed price deal 'no longer corresponded to justice'." It was further reported that he wanted to convene a meeting between the two provinces in January of 1985.[93]

Once in office, Mulroney's pre-election sentiments about simple decency on this topic were not evident. His administration failed to take any measures to ensure Newfoundland and Labrador gained unrestricted access to the North American energy markets through Quebec territory. Mulroney Cabinet Minister John Crosbie has stated that there was no practical action which the Prime Minister could have taken. He said the history of the Conservative Party in Canada demonstrated the critical importance of a federal party protecting its electoral base in Quebec in order to retain majority governments. Newfoundland and Labrador's requests for action had perpetually asked the federal government to take action which could have aggravated voters in Quebec, especially the nationalists. According to Crosbie, a national government could not retain a majority national government if it alienated a large bloc of critical voters in Quebec to appease a smaller group of voters in Newfoundland and Labrador.[94]

By 1988, negotiations continued to be stalled and with no foreseeable hopes of progress the Peckford administration launched one final judicial action. The Canadian Supreme Court was asked to make a ruling on an appeal concerning the 1982 decision of the Newfoundland and Labrador Court regarding the recall of 800 MW of power from the Upper Churchill. The Supreme Court of Canada agreed that it would not be economic or feasible for CFL Co. to comply with the request and the decision was upheld. Peckford conceded that it was the last significant legal challenge that the province could have attempted.[95]

While Quebec remained ready to negotiate, Peckford continued to stress the need for federal intervention. In contrast, federal Minister of Energy, Marcel Masse, continued to echo the mantra that the Churchill Falls issue was an interprovincial dispute and the federal government did not plan to get involved. Despite Masse's opinions, Peckford continued with the perpetual refrain that there was "a responsibility legally and constitutionally upon the Government of Canada to allow for hydro power to flow in the same way as they [allowed] for oil and gas to flow from Alberta to Quebec."[96] All the while, the vast potential of the undeveloped sites in the Churchill River Basin, and elsewhere in Labrador, continued to flow unharnessed to the sea.

It appears that as the 1980s progressed, the Peckford government developed a sense of fatigue surrounding the politics of development of the Churchill River Basin. In its 1980 special report *Managing All Our Resources*, the Peckford administration commented that while undeveloped hydroelectric resources in Labrador were a key resource, it continued "to present some of the most difficult challenges to Government from constitutional, intergovernmental, financial and planning perspectives."[97] As the eighties progressed, the shift in focus continued.

The provincial and federal governments became increasingly focussed upon the emerging oil and gas sector as the key to the future prosperity of the province. This new focus was also evident in the terms of reference for the 1985 *Royal Commission on Employment and Unemployment*, chaired by Dr. Doug House. The terms lacked any mention of hydroelectric potential in Labrador. Meanwhile in Ottawa, oil and gas came to be considered part of bigger issues than the decades-long dispute with Quebec over Churchill Falls.[98]

1989-1994: The Liberals Back in Power and New Possibilities

The 16-year Conservative reign in Newfoundland and Labrador ended in 1989 with the election of Liberal Premier Clyde Wells. While there was a change in regime, the Wells' administration did not have any more success than previous administrations in terms of securing a deal to develop any of the remaining hydroelectric sites in Labrador.

There was a substantial opportunity for progress early in Wells' mandate. Hydro-Quebec had been experiencing substantial difficulties as a series of power outages between 1987 and 1989 harmed the utility's reputation and it was asked by the Quebec government in March 1990 to prepare a five-year improvement plan.[99] The difficulties were a part of the motivation behind Hydro-Quebec in November 1989 taking the rare move of initiating negotiations related to the Churchill River Basin. After a series of over 30 meetings, a draft agreement was created in November 1991 and presented to cabinet on 12 December, 1991.

Newfoundland and Labrador was offered access to, and eventual ownership of, a substantial block of power. In addition the deal would have created approximately 24,000 jobs and would have been worth approximately $14 billion in revenues and assets.[100] In return, Hydro-Quebec would have had access to a significant amount of power which it could use while it planned its own future supplies. A critical issue, as well, was that it would have received protection from any action taken by Newfoundland and Labrador in relation to the final 25 years of the 1969 contract.[101]

While the deal would have provided a major economic boost to both provinces, there remained outstanding issues that needed to be resolved. For Quebec, it would have created the perception that the negotiators had acquiesced to Newfoundland and Labrador's long-standing demands to reopen the Upper Churchill contract. Meanwhile for Newfoundland and Labrador, the Wells' administration would have had to contend with the perception that Hydro-Quebec had been granted additional protection for the final 25 years of the 1969 contract.[102] It was this final point which the Newfoundland and Labrador negotiating team considered the major outstanding issue that needed to be addressed. Rather than accepting the offer, the negotiating team suggested making a counter proposal to Hydro-Quebec mentioning the outstanding issues.[103]

There is much controversy concerning why the negotiations did not end with a formal agreement on further hydroelectric development in Labrador. In 1994, the opposition Conservatives accused the Wells' government of having "walked away" from the $14 billion -24,000 job proposal. Such accusations were denied by the Minister responsible, Rex Gibbons, who said that the two sides were "very close to a deal" and Newfoundland and Labrador did reply to Quebec's offer in December, 1991. Newfoundland and Labrador, in line with the recommended response from the Newfoundland Labrador Hydro negotiating team, wanted "clarification of a few significant points".[104]

By 1992, the Hydro-Quebec problems mentioned above between 1987-1989 had faded into the background and the sense of urgency subsided.[105] The Wells' government did not get a response back until March 1992 when Quebec officials said that due to changed economic circumstances they wished to "lay it aside" until a later date; a date which never materialised.[106]

There was another development in 1992, which would subsequently have a profound effect on Hydro-Quebec and the North American energy markets. That year, deregulation gripped the American electric industry as the Federal Energy Regulatory Commission (FERC) enacted the Energy Policy Act, "FERC Order 888." The new legislation stipulated that in order to sell into the American marketplace, companies – especially monopolistic entities like Hydro-Quebec – would have to engage in "fair market practices" to get a licensee to sell their energy. In order to sell into the American market, utilities had to provide reciprocal rights and allow their infrastructures to be used by competitors.[107] While designed specifically for utilities within the United States, the extraterritorial implications meant that Hydro-Quebec could no longer block Newfoundland and Labrador's access to the larger energy markets.[108]

However, the Wells' administration did not capitalise on the new opportunities presented by the deregulating markets. Instead, the Premier devised different means of attempting to deal with Labrador power issues. His approach was two-pronged: privatising Newfoundland and Labrador Hydro and enacting the Electrical Power Control Act (EPCA). With a private company in control of hydroelectric operations, the government would have appeared to have been regulating an industry rather than being directly involved in interfering with established contracts. The government would have been the regulator, not the owner/operator. Wells' plans, however, were dependant upon secrecy and he asked his caucus members to refrain from talking publicly about the proposals. He knew that, as discussed above, the earlier attempt by the Peckford administration to pass the Water Rights Revision Act ultimately failed due to statements made external to the actual government legislation.[109]

Wells' plans were thwarted by a determined opposition to the idea of privatisation from the general public.[110] But in 1994, he was successful in implementing the EPCA which theoretically enabled the government to use increased regulating control and access provisions granted in the above-mentioned 1982 constitutional amendment Section 92A. Part II of the EPCA granted the Public Utilities Board (PUB) broad powers to allocate and to re-allocate all power produced within the province, whether produced by a public or private company. It further stipulated that the PUB had the ability to require an electrical producer to make its production infrastructures available on terms dictated by the PUB, including rates, duration and amounts of energy. Furthermore, EPCA Section 10 relieved a supplier from any liability for failure to supply power in previous contracts due to compliance with a PUB order.[111] However, the full implications of EPCA have not been fully explored nor utilised as a tool in dealing with issues related to hydroelectric development in Labrador.[112] As well, the EPCA did not lead to any further progress on hydroelectric development in Labrador.

While Labrador power now had unimpeded access to international markets, domestic access to the Canadian market remains impeded. Since the mid-1990s, a potential solution to the aberrant domestic situation has presented itself in the form of the Agreement on Internal Trade (AIT). The voluntary, non-legally binding agreement was enacted on 1 July, 1995 with the intent to reduce or eliminate interprovincial trade barriers.[113] Of specific interest to this report is the yet-to-be negotiated Chapter 12, dealing with the energy sector. Electrical energy transmission through adjacent provinces is at the centre of the missing Energy Chapter. Other energy sectors, such as oil and gas, operated "close to internal free trade" conditions and it was hoped by negotiators that electric energy would have been treated the same through wheeling rights provisions.[114]

In the early stages, negotiators from Newfoundland and Labrador insisted upon full wheeling rights for electrical energy for interprovincial transmission. This notion was opposed by provinces such as Quebec and Ontario which thought the transmission of electricity across provinces was best left to the provincial utilities. However, the extraterritorial implications of the deregulated American energy markets are driving changes in Canada's domestic energy markets, As a result, Quebec is in favour of Chapter 12 as it will improve Hydro-Quebec's reputation within the American energy market.[115] Currently, final agreement on the Energy Chapter is being upheld – not by a preventative Quebec – but by Newfoundland and Labrador itself, along with Nova Scotia.[116]

Negotiators from the dissenting provinces perceive that the Energy Chapter places the local preference aspects of the Atlantic Accord(s) in jeopardy. The Accord(s), took years to negotiate between the provinces and the federal government and were designed to establish the ground rules for oil and natural gas development and revenue sharing in Atlantic Canada. Nova Scotia and Newfoundland and Labrador view the local preference provisions of the Accord(s) to be integral to the future economic development of the region. The provinces are not willing to sacrifice local preference sections for access to energy markets.[117] However, in terms of the marketing of Labrador's hydroelectric energy, it does exist as another possible way forward.

Political scientists Bruce Doern and Mark MacDonald have remarked that based on current trends, it appears that "internal free trade for electricity in Canada would become a made-in-the-U.S.A policy."[118] It is therefore important to examine the evolving regulatory market changes in the United States to get an indication of how the Canadian marketplace is likely to evolve. It would be a mistake to view FERC Order 888 as the final word on regulatory reform in the American energy markets. Order 888 was described in the FERC's 1998 *Annual Report* as being "merely the beginning of electric utility restructuring."[119]

Despite numerous changes in North American energy markets and innovative approaches to regulating the electricity industry within the province, Premier Wells' administration did not achieve any success in furthering hydroelectric development in Labrador.

The stagnant situation remained until Wells stepped down and was replaced by a former Member of Parliament, Brian Tobin.

1996-1998: Brian Tobin and the Deregulating Energy Markets

In 1996, Tobin emerged on the provincial scene with a new attitude and approach to the development of the hydroelectric potential in Labrador. He used a nation-wide public relations campaign to try and bring pressure to bear on Hydro-Quebec to discuss changes in the 1969 Contract. This campaign led to media reports that Tobin threatened to "pull the plug" on Churchill Falls and deny Hydro-Quebec a key source for electricity exports.[120] A crucial part of the campaign was his releasing of the above-mentioned February 1984 "Statement of Intent" signed by Vic Young and Jean Bernier.[121] Tobin had opportune timing in launching the campaign as changes in the deregulated American energy markets had made Hydro-Quebec increasingly conscious of its reputation.

In March 1998, the fundamental changes in the international energy markets, discussed above, led to side-agreements between Newfoundland and Labrador and Quebec concerning the Upper Churchill and proposals to further develop hydroelectric sites in Labrador.[122] Hydro-Quebec agreed to a number of side-deals to augment revenues to the province from the Upper Churchill. Hydro-Quebec agreed to spend $23 million per year to buy an additional 130 MW of power from the province for resale in the North American markets. As well, it agreed to a winter availability contract, to run from November 1998 until the conclusion of the 1969 contract in 2041, to pay $34 million per year for guaranteed peak power supplies during the winter months. The deals have ensured CFL Co.'s financial stability into the future.[123]

The agreements, however, were not dependent upon the successful conclusion of separate proposals to develop other hydroelectric sites in Labrador. Separately, plans were made to develop the Lower Churchill River Basin and for partially diverting the Saint- Jean and Romaine Rivers in order to construct an additional 1,000 MW generation station at Churchill Falls. The deal would have provided a floor price for electricity but no ceiling and would have paid Hydro-Quebec a 2.8% commission for the marketing of Newfoundland and Labrador's hydroelectric energy in the North American markets.[124] The last provision would have left the province in the unusual situation of having a neighbouring province market its resources on its behalf. As will be discussed in the conclusion, such an arrangement would have failed to safeguard the best interests of the province.

There were also plans to build a 2,200 MW generating station at Gull Island and to conduct a $20 million feasibility study of developing the Muskrat Falls site on the Lower Churchill River. The proposal would have entailed investments of approximately $12 billion, provided 6,200 jobs by the height of construction in 2004 and provided a direct line to the island portion of the province. In the end, plans for the subsequent development of the Churchill River Basin were abandoned when the two sides could not agree on marketing and pricing arrangements.[125] However, the negotiations did not lead to any final agreement on subsequent hydroelectric development in Labrador.

1999-2002: The Continuing Evolution of the Energy Markets

In December 1999, the FERC passed Order 2000 which introduced the stipulation that "all transmission users should receive access under rates, terms and conditions comparable to those the transmitting utility applies to itself to serve its own customers."[126] The measure is meant to ensure that energy remains at a competitive price in the final marketplace despite having to be transmitted through one or more jurisdictions.[127]

Once again, FERC measures govern the transmission and sale of electricity within the United States, but this strongly affects Canadian utilities attempting to sell into American markets.

FERC Commissioner, the Honourable William L. Massey stated at an energy conference in Halifax in June, 1999 that "Canadian and Mexican involvement in [regional transmission organizations] formation is welcome and critically necessary. A vibrant North American bulk power market requires that regional institutions include all market participants."[128]

Further evidence of Canadian implications from American actions is evident in a Northeast Power Coordinating Council (NPCC) initiative to establish a common North American market for electrical energy trade through the creation of a Northeastern Regional Transmission Organization (NERTO). While aware of national sovereignty issues, the proposed NERTO has as its ultimate goal: "to create a seamless... trading area by harmonizing NERTO and Canadian markets." Furthermore, by November 2002, agreements had successfully been concluded between the NPCC and Ontario and New Brunswick with deals with Nova Scotia and Quebec expected in the near future.[129]

FERC Commissioner Linda K. Breathitt highlighted the importance of direct participation during an address to the Canadian Electricity Association in March 2001. She stated that, "expansion of the electricity trade in the North American bulk power market will require that regional institutions... include all market participants so that everyone will enjoy direct access to market information and the benefits of regional coordination."[130] A lesson to be learned here is that if the Province of Newfoundland and Labrador desires to sell in this marketplace, and thereby capitalise upon an emerging lucrative market, it has to be an active participant in negotiations and in the shaping of NERTO. This can only be accomplished through direct participation and representation.

Past and Present: Summary and Lessons to be Learned

The penultimate section of this report will draw together, based upon the evidence presented above, three key lessons that emerge from Newfoundland and Labrador's attempts to develop the hydroelectric resources of the Churchill River Basin since Confederation with Canada in 1949.

The first lesson which emerges from the above discussion is that Hydro-Quebec has in the past maintained a privileged position within the province of Quebec, and has successfully been able to use its close connections with the Quebec government to have its interests protected at the national level.[131] Similarly, shrewd tactics with regards to gaining NEB export licenses, in conjunction with an exceptional reputation and position within American energy markets have, until recently, prevented Newfoundland and Labrador from fully capitalising on the opportunities available in the lucrative energy markets in the United States.[132] Quebec's influence has limited federal action to the realms of financial and technical assistance while Ottawa has failed to implement practical legislation to ensure Newfoundland and Labrador gained full access to the North American energy markets. The federal government has not, nor is it likely to, use its constitutional powers in such a way that would jeopardise Quebec's most powerful and influential corporation, Hydro-Quebec.[133] In pragmatic electoral terms, a federal government cannot afford to alienate a majority of Quebec voters and expect to establish, or maintain, a majority government.[134]

The above conclusion does not mean that Hydro-Quebec is oblivious to the demands and arguments from Newfoundland and Labrador.

A second key lesson to be learned is that, when it directly suited its immediate needs, Hydro-Quebec has proven sensitive to Newfoundland and Labrador's demands for redress of the 1969 Churchill Falls contract. This was evident in Rene Levesque's proposal to Frank Moores in which he wanted Newfoundland and Labrador to "sign-off" on the Upper Churchill. As mentioned above, the proposal was thwarted by Brian Peckford's opposition to the idea. Also, it was evident again while the Water Rights Revision Act was in the courts when Vic Young and Jean Bernier signed a "Statement of Intent" that included major concessions to the province by Hydro-Quebec. Once the Supreme Court of Canada rendered its decision against Newfoundland and Labrador, negotiations slipped into abeyance.

As previously discussed, the $14 billion offer to the Wells' government came at a time when the Quebec utility was experiencing some difficulties. More recently, a responsive Hydro-Quebec was evident in the midst of Premier Tobin's cross-country public relations campaign that appeared to be gaining strength. It was also a time when the utility was eager to prove its commitment to open market philosophy to ensure their advantageous position within the lucrative American energy markets. Subsequent negotiations led to side agreements that augmented revenues from Churchill Falls.

In each of the above situations Hydro-Quebec, when necessary to either further corporate goals or to deflect negative public and business attention, has shown a willingness to discuss Newfoundland and Labrador's grievances related to Churchill Falls. Hydro-Quebec cannot be faulted for keeping the interest of their company and province paramount in any dealings with Newfoundland and Labrador. The utility is a vastly successful corporation with an exceptional international reputation in the hydroelectric field. Specialised engineering, technical and financial knowledge and wherewithal has enabled the company to achieve its success. It was also these factors which enabled the development of the Churchill Falls project in the 1960s. Hydro-Quebec's negotiators have consistently realised the tremendous negotiating advantage which geography had provided them and they used that advantage to the utmost. One would assume that were the situations reversed, Newfoundland and Labrador negotiators would have been similarly strong in their bargaining tactics.

A third critical lesson to be learned is that there has been a substratum shift in the North American energy markets. The current FERC program to rid the electrical markets of fettered access has helped level the negotiating table between Newfoundland and Labrador and Quebec. While this only applies to sales into a foreign market, it is a substantial improvement for the bargaining position of the province vis-a-vis Quebec. However, in order to ensure that the province fully capitalises upon the new opportunities presented by the granting of those rights, it is essential that Newfoundland and Labrador have its own representatives in the American energy markets through organisations such as the Northeast Power Coordination Council (NPCC).[135]

The NPCC's Treasurer & Director of Strategic Planning, Jennifer Budd, could not recollect any attempts by Newfoundland and Labrador to establish representatives in their crucial organisation. Ms. Budd added that the "NPCC is an open and inclusive organization and welcomes new members."[136] Former Premier Brian Peckford has stated that his administration had once considered establishing representatives, but it was a moot point without first having wheeling rights to get the electricity to market.[137] Since the mid-1990s, however, the situation has fundamentally changed. It is now critical for the province to establish direct representatives in the American markets through membership in the NPCC. As previously mentioned, Hydro-Quebec officials have been stalwart defenders of Quebec interests and therefore paying a commission to them to sell Labrador power ensures that the ultimate interests of Newfoundland and Labrador will be, at best, incidently represented.

To summarise, from 1949 until recent times Newfoundland and Labrador has faced restricted access to the North American energy markets due to the obstinate objections of Quebec to having electric energy moved through its territory without dictating the terms of sale. That was the key problem faced by Premier Joseph Smallwood and BRINCO during their 17 year struggle, from 1952-1969, to secure a deal to develop the Churchill Falls site. BRINCO needed a power corridor. Federal constitutional action was needed to force Quebec to grant access to the larger markets through its territory. When this did not happen the remaining options were limited. Smallwood's subsequent rejection of Rene Levesque's offer to jointly develop the project by removing BRINCO from the picture, led to a crisis in 1969 which enabled Hydro-Quebec to secure the onerous terms of the 1969 Churchill Falls contract. The options which remained were to allow development to proceed according to Quebec terms or to leave the Falls undeveloped and, most likely, have let BRINCO fail. Smallwood, and the entire House of Assembly, chose the former option.

The initial 1969 contract in and of itself remains a serious problem for the province, but there are signs that it may be possible to, at a minimum, receive a substantially better rate of return on the project than the province has traditionally received. In addition, longstanding problems associated with having to send power through Quebec territory seem to be in the process of being resolved, albeit due to American extraterritoriality.

Questions Political Will and the Federal Government

Since the 1960s, Newfoundland and Labrador has been unable to convince the federal government to enact practical legislation to ensure the province could move its hydroelectric resources to the lucrative Canadian and American markets. The federal government has aided development in Labrador by enacting such measures as the 1966 change in the Utilities Act which allowed energy to be sold to Hydro-Quebec at a cheaper mill rate. As well, the federal government was instrumental in creating the Lower Churchill Development Corporation. Other federal actions, such as passing Bill C-108 granting the NEB expropriation rights to build a dedicated electricity line through Quebec, while useful in theory, had no practical application for the province. BRINCO had needed a power corridor in the 1960s as no power lines from Churchill Falls yet existed. Advances in technology and the upgrading of power lines in the subsequent decades have made a separate dedicated corridor no longer an economically feasible option. What is now required are wheeling rights, either through spare capacity within existing lines, or by running parallel lines on existing power-line infrastructures.[138]

The technical and economic possibilities of hydroelectric development in Labrador have never been a critically contentious issue. For example, in recent years the potential development of the Lower Churchill has become viewed as an important mechanism which Canada could use to help meet commitments it made at the Kyoto Environmental Conference in 1997. Government sources claimed that development of the Lower Churchill project would "provide clean, stable power and account for up to 15 per cent of Canada's Kyoto commitment to reduce greenhouse gas." A joint press release by Newfoundland and Labrador Hydro/Hydro-Quebec emphatically, and prematurely, stated:

> In agreeing with the Kyoto protocol, Canada accepted the target of reducing its emissions to an average of 6 per cent below 1990 levels by the 2008-2012 time frame. The contemplated projects will significantly reduce greenhouse gas emissions and will make a substantial contribution towards meeting this target.[139]

However, economic feasibility and environmental desirability, no matter how strong, are not guarantees of development. In the subsequent decades since 1969, successive federal governments have continued to exhibit a non-interventionist attitude and, as one of the consequences, the Lower Churchill was not developed. A key difference related to hydroelectricity in Labrador is the attitude of Newfoundland and Labrador governments since Premier Smallwood: they now insist that no development is better than a bad development.

Subsequent electrical development of the Churchill River Basin has been prevented by numerous failures of political will. From the time negotiations first began with Quebec, successive federal governments refused to intervene under the guise that it was not the federal government's role to involve itself in interprovincial disputes. Given Newfoundland and Labrador's geographic position in relation to an uncooperative Quebec, federal non-involvement was tantamount to capitulation to Quebec's interest. If pragmatic political considerations and Canadian unity issues largely dictated federal actions and omissions, then Newfoundland and Labrador has paid an inordinate price for the maintenance of national unity.

Meanwhile, successive Newfoundland and Labrador governments have not had the political will to accept the various offers of redress from Hydro-Quebec in relation to the 1969 Churchill Falls contract. It has lacked the political will to agree to subsequent hydroelectric developments in Labrador. Consequently, Newfoundland and Labrador has not been able to achieve fair and equitable benefits from Churchill Falls nor has it been able to reap the benefits which further hydroelectric development in Labrador would entail. The result has been decades of frustrations and ill-will being expressed towards the neighboring province, Quebec.

Recommendations

Changes that originated in the 1990s American energy markets have fundamentally altered the politics of energy in both the United States and Canada. The question which now remains is if the provincial government has the political will and competence to maximize the emerging opportunities which have overcome traditional problems with Quebec's "revenge of geography." To that end, the Royal Commission should consider making four key suggestions to the provincial government.

Firstly, it is critical for Newfoundland and Labrador to establish direct representatives in the American energy markets by joining the Northeastern Power Coordinating Council. Deals are already either in place or nearly negotiated with other eastern Canadian provinces who are also active in the energy sector. It is of further importance given the fact that regulatory changes in the American energy markets are having a profound trickle-up effect within Canadian energy policy development.

Secondly, the Royal Commission might wish to suggest that the government conduct a comprehensive analysis of all past, present, and likely future, constitutional and political avenues available to produce a negotiating situation conducive to finding redress for the 1969 Churchill Falls Contract and for the further development of Labrador's hydroelectric resources.

For example, the full potential implications of the 1982 constitutional amendment Section 92A, and the 1994 EPCA, may not have been fully exploited by the province. Such a report would also have to be cognisant of existing tools and organisations, such as Bill C-108, and the Lower Churchill Development Corporation to see if they could be better utilised than in the past and assess their continued relevance.

Thirdly, as evidenced by Hydro-Quebec's willingness in 1998 to sign side-deals to increase revenues for Newfoundland and Labrador from Churchill Falls, the province needs to recognise the renewed strength of its bargaining position and devise negotiation strategies designed to fully capitalise upon the new North American energy realities. To do this the provincial government and Newfoundland and Labrador Hydro ought to conduct a comprehensive review of the specific implications of changes in North American energy markets and the implications for further hydroelectric development in Labrador. This would be supplemental to the March 2002 report *Electricity Policy Review*.[140] It would have to include a thorough assessment of the province's position on the missing Energy Chapter within the Agreement on Internal Trade.

Finally, when and if the above suggestions are completed, the Royal Commission may want to suggest that the Newfoundland and Labrador government, approach the federal government to insist on financial help with the costs of two hydroelectric lines. It remains important for the province to be joined to its hydroelectric resources in Labrador. Therefore, the provincial government should approach the federal government about financing the costs of a powerline from Labrador to the island portion of the province.

When and if Newfoundland and Labrador establishes contracts for sales into the North American energy markets, it may need federal assistance. If there is a lack of spare capacity in existing Hydro-Quebec lines, parallel powerlines may be needed on existing Hydro-Quebec infrastructures. Over the past few decades, Newfoundland and Labrador representatives have made similar requests but to no avail. The counter-argument used was the issue of costs which the province would have been expected to cover on its own to run such lines. There are, however, historical precedents which the province could use to support its request. For example, in 1966 Prime Minister Lester B. Pearson's government announced $300 million in spending to assist Manitoba with the Nelson River hydro project. The federal government planned to "construct, finance and own the high voltage transmission lines required to move the Nelson River power, and when the markets developed, to the international and interprovincial boundaries." This was done to insure that the power site was developed, despite being in a province where the provincial market was too small for the province to develop on its own.[141]

A constant theme throughout the history of hydroelectric development in Labrador is that Newfoundland and Labrador has faced numerous political, technical and economic obstacles in attempting to develop the hydroelectric potential of the Churchill River Basin. However, a further theme is that the Newfoundland and Labrador government has consistently borne ultimate responsibility for decisions to either proceed, or not to proceed, with hydroelectric development.

Given the implications of evolving North American energy markets, future historians will most likely view the current period as a golden-moment. The province, for the first time, has the opportunity to negotiate hydroelectric developments in Labrador at a level negotiating table during a time of increasing demands for energy in lucrative markets.[142] Future judgements will rest upon the current and near-future actions of the province's politicians and bureaucrats. Ultimately, it will be their decisiveness or their reluctance to act which will decide if the current opportunities are capitalised upon or squandered.

Endnotes

1. I have spoken with some individuals who have asked not to be mentioned, and some of their ideas, supported by other external evidence, have been interwoven into this report.

2. The name Churchill River, Falls and Basin did not appear until 1965 when the Hamilton River, Falls and Basin were renamed to honour British Prime Minister W.S. Churchill. However, for the sake of clarity, this essay will refer to Churchill River, Falls and Basin throughout.

3. For practical reasons it would not be feasible to assess current actions by Premier Roger Grimes.

4. An email listed the following sites and the estimated power capacity Megawatts. Gull Island 2,264 MW, Muskrat Falls 824 MW, Lobstick 160 MW, Pinware 77 MW, St. Lewis 68 MW, Alexis 98 MW, Paradise 89 MW, Eagle 661 MW, Minipi 647 MW, Naskaupi 290 MW, Kanairuktok 394 MW, Fig 204 MW, Kogaluk 58 MW, Mistastin 81 MW, Notakwanon (Lower) 84 MW, Notakwanon (Upper) 94 MW, Ugjoktok (Lower) 94 MW, Ugjoktok (Upper) 43 MW, Harp Lake 51 MW, Kanairiktok 153 MW, Kingurutik 31 MW, and Big 109 MW. The total given is for a potential of 6,574 MW of hydroelectric energy.

   The chart giving the above information had the following advisory: "1) The potential of these sites have not all been brought to the same level of engineering feasibility, as a result, the capacity values presented are approximate and may change significantly after additional study."

   Hubert Budgell (Newfoundland and Labrador Hydro), "Email to Jason Churchill," 28 November, 2002.

5. An email listed the following sites and their estimated power capacity in Megawatts: St. Paul 149-250 MW, St. Augustine 127-250 MW, Little Mecatina 186-1040 MW, Natashquan 56-563 MW and Romaine 1,330 MW. The listing came with two notes. The first stating: "Ranges in capacity potential for specific rivers result from development alternatives which propose alternative diversion schemes and hydro plant locations." The second notes was the same as stated above related to preliminary engineering work and further studies could change the numbers given.

   Budgell "Email to Churchill," 28 November, 2002.

6. Due to limited space the issue of the interprovincial rivers cannot be discussed in this paper. However, the following two examples illustrate Quebec's interest. In 1964 Quebec Premier Jean Lesage, unsuccessfully, insisted that adjustments in the Labrador border be part of a package deal to develop Churchill Falls. To gain control over the watershed areas of the five interprovincial rivers he offered an approximate reciprocity in the exchange of lands of 17,600 km^2. Quebec would gain watershed control and Newfoundland and Labrador would gain territory in the Ungava Peninsula.

   Similarly in 1976 Quebec's Minister of Natural Resources, Jean Cournoyer, unsuccessfully suggested a change in the Labrador border in return for Quebec making available 800 MW of power. He later suggested that in exchange Newfoundland and Labrador sell the massive watershed areas to Quebec. While sovereignty would remain with Newfoundland and Labrador, Quebec would be able to develop the rivers that emptied into the St. Lawrence. Mr. Cournyer was informed by Newfoundland and Labrador's Minister, John Crosbie, that the Moores' administration was "not prepared to sell one square inch" of Newfoundland and Labrador's territory.

J.R. Smallwood, "Telegraph to Honourable Jean Lesage," 3 April 1964, (Smallwood Papers CNS MUN 316.082 Quebec Government 1949-1971,) p.2.

J. R. Smallwood to Assembly, "Newfoundland and Labrador Hansard", (Unpublished: Newfoundland and Labrador Legislative Library (hereafter referred to as NLLL,)), 3 April, 1964, p.8.

John C. Crosbie to Assembly, *Newfoundland and Labrador Hansard*, 29 April, 1976, pp.6146-6148.

[7]. John Crosbie has noted that the Government of Newfoundland and Labrador was not a direct signatory to the 1969 contract but government permission was required before the contract could have been executed. As well, the Newfoundland and Labrador legislature facilitated the implementation of the contract by passing in May 1969 Trust Deed legislation totalling $500 million US and $50 million Cdn.

John C. Crosbie, "Churchill Falls Power, The Past, The Present And Future Development: Notes for a Speech Delivered to the Newfoundland and Labrador Construction Association at St. John's, Newfoundland and Labrador, on Friday, 31 January 2003," (for further information on the speech, contact bjestican@pattersonpalmer.ca), p.7.

[8] For an excellent account of the legalities of the Churchill Falls Contract and the role of the provincial government please see:

Jules Brière, "The Power Contract: The Legal Aspects," *Forces*, (Volumes 57-58, 1981-1982), p.98-100.

[9] Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation, "Power Contract Between Quebec Hydro-Electric Commission and Churchill Falls (Labrador) Corporation Limited, May 12, 1969," (CFLCo Papers NAC MG 28 III 73 Vol.11 File 4 Quebec Hydro,) p.2, pp.6-9. (Hereafter referred to as "Power Contract, May 1969").

[10] Government of Newfoundland and Labrador, "Background on Churchill Falls," (Churchill Falls Media Briefing October 9, 1996,) p.3.

[11] In 1981, the head of Newfoundland and Labrador Hydro, Victor Young detailed the amount of money spent on the island to supply growing demands. Between 1976 and 1981, Hydro had to spend $315 million in capital cost to compensate for not being able to access the Churchill Power. Additionally, with the island's dependence on oil, Young expected an additional $55 million to be spent on oil in 1981 alone. He further predicted that to ensure a secure supply of energy from 1984-1986 an additional $300 million would have to be spent.

Victor Young, "Outline of Remarks to the MUN Extension", (CFL Co. Background File: NLLL) pp.9-10.

[12] Philip Smith, *BRINCO: The Story of Churchill Falls*, (Toronto: McCelland and Stewart Limited, 1975,) p.286.

[13] Joseph R. Smallwood, *I Chose Canada, the Memoirs of the Honourable Joseph R. "Joey" Smallwood*, (Toronto: Macmillan of Canada,1973,) p.444.

[14] Smallwood thought that this provision was of far more importance than the family allowance, old age pension, social security and governmental subsidies provisions in the Canadian offer.

Joseph R. Smallwood, "Speech to National Convention, 1 December, 1947," in James K. Hillier and Michael F. Harrington (editors), *The Newfoundland National Convention 1926-1948 - Volume 1: Debates*, (Montreal: McGill-Queen's University Press, 1995,) p.904.

[15]. Government of Newfoundland and Labrador, (GNL) "An Act to Authorize the Lieutenant-Governor in Council to Enter Into An Agreement with British Newfoundland Corporation Limited and N.M. Rothschild & Sons", National Archives of Canada, (NAC), CFL Co. Papers MG28 III 73 Vol.35, (20 May 1953).

[16]. Seventy-two per cent of CFL Co. was owned by BRINCO, while the rest of the shares were divided up between the Newfoundland Department of Resources and Rio Algoma Mines. To help finance the endeavour, BRINCO sold General Mortgage Bonds to Hydro-Quebec to increase the later's share of the company to 34 per cent, leaving BRINCO with 57 per cent of the shares, and Newfoundland with nine per cent.

The Newfoundland and Labrador proportion appeared to be small, but one must account for the fact that Newfoundland and Labrador was to get eight per cent of BRINCO's profits. Indirectly, therefore, the province would benefit beyond its paltry nine per cent of shares.

D.J. McParland, "BRINCO and the Churchill Falls Development" an Address to the Canadian Club of Toronto January 23, 1967",(CFL Co. Papers, NAC, MG 28 III 73 Vol.1), p.1.

BRINCO, "BRINCO in Newfoundland A Summary", NAC, CFL Co. Papers: MG 28 III 73 Vol.36, p.1.

[17] Mr Justice J. Goodridge, "Decision of the Supreme Court of Newfoundland Trial Division 1976, No. 812," (Volume I,) p.6, pp.8-10.

[18]. John Crosbie has recently emphatically raised this point in a January 2003 speech in which he stated "the pivotal position of Quebec if there was to be any successful development... was obvious from the beginning."

Crosbie, "Churchill Falls Power, The Past, The Present And Future," p.4.

[19]. The strength of Newfoundland and Labrador's convictions regarding Labrador were reflected by former Minister of Energy, John Crosbie who in 1976 assured the Newfoundland and Labrador Legislature, "that the Government of Newfoundland [had] no intention of any

adjustment in the boundary supposing that we all [starved] to death. Suppose we lost the lights in the whole Province, we would not agree to [have given] anything up in connection with the Newfoundland and Labrador boundary."

John Crosbie to Assembly, *Newfoundland Hansard*, (29 April 1976,) p.6149.

[20] N.A. "Labrador Decision, A Fruitless Victory For Newfoundland?" *Toronto Star* 14 June 1927,"Press Clippings" (CFL Co. Background File, NLLL).

[21] Paul Sauriol, "Comment From Quebec Labrador Border" *Peterborough Examiner*, 7 June 1968, "Press Clippings" (CFL Co. Background File, NLLL).

[22] Crosbie, "Churchill Falls Power, The Past, The Present And Future," p.8.

[23] Former Newfoundland and Labrador Energy Minister, Mr. William Marshall once stated "if parties [could] not negotiate on equal footing, inequities [were] bound to result."

William Marshall, "Telex to Marc Lalonde, 4 June 1982, (CFL Co. Background File, NLLL,) p.5.

[24] Due to limitations of space, some of the detail relating to political activities pre-1972 have been shortened. For a more complete account of the politics and context of the 1969 contract please consult the following:

Philip Smith, *BRINCO: The Story of Churchill Falls*, (Toronto: McCelland and Stewart Limited, 1975).

Jason L. Churchill, "Pragmatic Federalism: The politics Behind the 1969 Churchill Falls Contract," *Newfoundland Studies*, (Vol. 15, no. 2, Fall 1999) pp. 215-246.

[25] John G. Diefenbaker, *House of Commons Hansard*, (hereafter *Commons Hansard*) 25 January, 1962, p.174.

John G. Diefenbaker, "Notes for Opening Remarks by the Rt. Hon. John G. Diefenbaker, Prime Minister at the Federal-Provincial Conference on Long-Distance Power Transmission [LDPT]", 19 March, 1962. Smallwood Papers, CNS MUN Coll-075 File 3.23.043 Long-Distance Power Transmission (LDPT) 1962-1964, p.2.

Arnold Peters, *Commons Hansard*, 31 January 1962, p.419.

H.M. Horner, *Commons Hansard*, 31 January 1962, p.421.

[26]. H.B. Rosenberg, "Minutes of Meeting of Committee on [LDPT] 28 October 1964" (Smallwood Papers, CNS MUN Coll-075, File 3.23.043 LDPT 1962-1964), p.2.

[27] Smallwood, *I Chose Canada*, pp.460-461.

[28] Philip Mathias, *Forced Growth: Five Studies of Government in the Development of Canada*, (Toronto: James Lewis & Samuel Publishers, 1971), p.63.

[29] Interview, Jason Churchill with John C. Crosbie, 8 January, 2003.

Crosbie, "Churchill Falls Power, The Past, The Present And Future," p.6.

[30] Preece,Cardew & Rider, "Hamilton Transmission via Newfoundland, December 1964," (CFL Co. Papers NAC MG28 III 73 Vol.46, File 400.201 Preece, Cardew & Rider, The Government of Newfoundland and Labrador, December 1964), pp.1-3

Acres Canadian Bechtel of Hamilton River, "Review of Preece, Cardew & Rider Report of December 1964 to the Government of Newfoundland Entitled 'Hamilton River Transmission Via Newfoundland' For British Newfoundland Corporation Limited: Review of Pertinent Considerations on Alternates for the Development of Hamilton Falls Power" 20 January, 1965. (CFL Co. Papers: NAC MG 28 III 73 Vol.46 File 400.201 Preece, Cardew and Rider Meetings June 1964-August, 1965), p.1, p.3 and pp.11-12.

[31] Mathias, *Forced Growth*, p.63.

André Bolduc, "Churchill Falls the Dream...and the Reality", *Forces*, (March 1982,) p.40.

[32] Joseph Smallwood, "Letter to Lester B. Pearson 29 September, 1966," (Smallwood Papers, CNS MUN Coll-075 File 3.10.016 Canada Prime Minister's Office 1966-67), pp.2-3.

[33] The section had been used approximately 470 times in regards to various projects such as local railways, dams, tunnels, telegraphs, mines, oil refineries and telephones. However, the federal government has tended to hesitate in using its declaratory powers and it was last used in 1961, five years before Smallwood prepared his letter requesting its use for the Churchill Falls project.

In his memoirs, Smallwood comments, "Not for a moment did I suppose that the designation of the project as national would be a solution of itself. The threat might, however, be more effectual than the reality."

Peter W. Hogg, *Constitutional Law of Canada Second Edition*, (Toronto: The Carswell Company Limited, 1985,) p.92, pp.485-486, and pp.491-493.

Smallwood, *I Chose Canada*, p.467.

[34] Henry Borden, "Reflections" (Unpublished manuscript, NAC Borden Papers MG 30 A8 Vol.4), p.166.

Frederick W. Rowe, *The Smallwood Era*, (Toronto: McGraw-Hill Ryerson Limited, 1985), p.32.

[35] Cabot Martin, "Footnote to History: The Truth Behind the Churchill Falls Deal", *The Globe and Mail*, 23 November 1996, p.D2.

[36] The agreement provided that Hydro-Quebec would buy virtually all the power from Churchill Falls that was in excess of the needs of Newfoundland and Labrador. It was later supplanted by the 1969 contract.

Langevin Coté, *Heritage of Power The Churchill Falls Development From Concept to Reality*, (St. John's: Churchill Falls (Labrador) Corporation Limited, 1972), p.43.

[37] Lionel Chevrier, *Commons Hansard*, 25 January, 1962, p.189.

H.B. Rosenberg, "Minutes of Meeting of Committee on" 28 October, 1964. Smallwood Papers, CNS MUN Coll-075, File 3.23.043 LDPT 1962-1964, p.2.

Gordon F. Pushie, "Letter to Hon. Robert H. Winters" 9 August, 1965. Smallwood Papers, CNS MUN Coll-075, File 3.23.044 LDPT 1965-68, p.1.

Federal-Provincial Working Committee, "Report to the Federal and Provincial Ministerial Committee on Long Distance Transmission: Regional and National Electric Transmission Systems for Canada - Stage II Assessment", 14 July, 1967. (Smallwood Papers, CNS MUN Coll-075, 3.23.044 LD PT 1965-68), p.9.

[38] Harold Horwood, *Joey*, (Toronto: Stoddart Publishing Co. Limited, 1989), p.197.

[39] Smith, *BRINCO*, pp.284-296.

[40] Smith, *BRINCO*, p.292.

[41] Crosbie, "Churchill Falls Power, The Past, The Present And Future," p. 12.

[42] During a 1989 debate on an opposition-proposed resolution on Churchill Falls, Premier Clyde Wells said that the 1969 deal was passed "with the unanimous approval of [the] legislature... everybody thumped his desk in approval."

Clyde Wells to Assembly, *Newfoundland Hansard*, (14 June, 1989), p.605.

F. Alfred and D. Pike, "Report of Clerk Assistant to the House of Assembly," *Newfoundland Hansard*, (8 May, 1968), pp.137-138.

T. A. Hickman to Assembly, *Newfoundland Hansard*, (8 May, 1968,) pp.194-196.

N. Noel, (Chairman of the Committee of the Whole) to Assembly, *Newfoundland Hansard*, (8 May, 1968), pp.197-198.

Mr. Speaker to Assembly, *Newfoundland Hansard*, (8 May, 1968,) pp.198-199.

F. Alfred and D. Pike, "Report of Clerk Assistant to the House of Assembly," *Newfoundland Hansard*, (9 May, 1968), pp. 143-144.

Brière, "The Power Contract," p.98.

[43] Former Smallwood Cabinet Minister John Crosbie, and others, have argued that it was also partially the result of the non-professional manner in which Smallwood ran the government. There were few feasibility studies into the project and its implications and Smallwood himself provided the only briefings to Cabinet concerning negotiations between BRINCO and Hydro-Quebec.

Interview Churchill-Crosbie, 8 January, 2003.

[44] Smith, *BRINCO*, pp.358-360.

[45] Frank Moores to Assembly, *Newfoundland Hansard*, (21 March 1974), p.2200, pp.2203-2204.

[46] Government of Newfoundland and Labrador, "An Act to Authorize," p.16.

[47] Interview Jason Churchill with William Marshall, 13 August, 1997.

[48] John C. Crosbie, "Ministerial Statement by the Honourable John C. Crosbie Minister of Mines and Energy, 28 November, 1975," (CFL Co. Background File, NLLL), pp.8-11, p.27.

John C. Crosbie, "Speech in House of Assembly, 28 November, 1975," *Newfoundland Hansard*, (CFL Co. Background File, NLLL), p.395.

[49] Crosbie, "Ministerial Statement," pp.42-43.

[50] Frank Moores, "Transcript of Statement, 20 May, 1976," (CFL Co. Background File, NLLL), pp.1-12.

[51] Quebec Hydro-CFL Co., "Power Contract" 12 May 1969, p.15.

Joseph Bourbeau, "Clarifying the Issue of Churchill Falls", 30 September, 1982, (CFL Co. Background File, NLLL), p.2.

[52] John Crosbie, "Transmittal Letter 6 August, 1976", in Mr Justice J. Goodridge, "Decision of the Supreme Court of Newfoundland Trial Division 1976, No. 812," (Volume II, Appendix "B" 6 July 1982), p.384.

[53] Goodridge, "Decision", p.23, p.42.

Quebec Hydro-CFL Co., "Power Contract" 12 May 1969, p.6.

[54] Interview Jason Churchill with Brian Peckford, 3 December, 2002.

Interview Jason Churchill with Vic Young, 18 December, 2002.

[55] Interview Jason Churchill with Brian Peckford, 3 December, 2002.

[56] Lower Churchill Development Corporation Limited, (LCDC)*Annual Report 1979*, p.4

LCDC, *Presentation to the Shareholders of Lower Churchill Development Corporation Limited Project Recommendation Executive Summary*, (June 1980), p.3.

[57] Frank Moores to Assembly, *Newfoundland Hansard*, (12 June 1978), p.9751.

Former Minister of Mines and Energy, Leo Barry, stated that the government had, "premised all [their] negotiations with the province of Quebec on resolution of the Upper Churchill situation."

Leo Barry to Assembly, *Newfoundland Hansard*, (16 April 1980), p.2163.

Negotiator and Cabinet Minister, William Marshall, stated the government was not willing to "trade-off" future benefits to accommodate past grievances."

Interview, Churchill with Marshall, 13 August 1997.

[58] Interview, Jason Churchill with Marc Lalonde, 24 December, 2002.

[59] Brian Peckford, "Letter to Pierre E. Trudeau, 16 April, 1980," (CFL Co. Background File, "Correspondence", NLLL), p.2

[60] Interview Jason Churchill with William Marshall, 5 December, 2002.

[61] Marc Lalonde, *Commons Hansard*, (27 April 1982), p.16659.

[62] In subsequent years when Newfoundland and Labrador representatives proposed running parallel power lines on existing towers the counter argument used was the issue of costs which the province would have expected to cover to run such lines. The federal attitude was in stark contrast to the efforts of Lester B. Pearson's government in the 1960s. In February 1966, Pearson announced $300 million in spending to assist Manitoba with the Nelson river hydro project. The federal government planned to "construct, finance and own the high voltage transmission lines required to move the Nelson river power, and when the markets developed, to the international and interprovincial boundaries." This was done to insure that the power site was developed, despite being in a province where the provincial market was too small for the province to develop on its own.

Interview, Churchill- Lalonde, 24 December, 2002.

Interview Jason Churchill with Chuck Furey, 10 January, 2003.

Lester B. Pearson, *Commons Hansard*, 15 February, 1966 p.1222.

[63] Interview, Churchill- Lalonde, 24 December, 2002.

[64] The impetus for the Bill was not federal in origin, but rather came from a Calgary-based power company, Transalta Utilities, which was attempting to sell energy to the United States. Lalonde explained to his Quebec counterpart, Yves Duhaime, that the Bill was designed to grant the NEB similar powers with regards to electricity as it did for oil and natural gas. Lalonde then added that "the latter powers [had] proven to be of immense economic value to the citizens of Quebec for decades, guaranteeing access to Alberta's resources without interference from other jurisdictions."

Marc Lalonde, "Letter to Yves Duhaime, 10 June 1982," *House of Commons Sessional Papers*: 321-7/25, 24 November 1980, p.1.

[65] Despite its limited utility, Marshall wanted Bill C-108 passed in order to provide some future Minister of Energy with another potential legislative lever to use to protect or promote Newfoundland's interests.

William Marshall to Assembly *Newfoundland Hansard*, 23 March 1984, p.844.

Interview, Churchill- Lalonde, 24 December, 2002.

Interview Churchill -Marshall, 13 August, 1997.

[66] Department of Mines and Energy, "Press Release, 3 July, 1980," (CFL Co. Background File, NLLL), p.1.

The recommendation was based upon an initial $14.9 million feasibility study which found that the potential of the combined sites of Gull Island and Muskrat Falls to be at 2,300 MW of power. This was the equivalent of 75,000 barrels of oil per day in perpetuity.

LCDC, *Presentation*, p.1.

LCDC, *Annual Report 1979*, p.1.

[67] Wheeling rights is defined by the National Energy Board as follows: "The transmission of power belonging to one utility through the circuits of another utility for delivery either to a third party or back to the originating system."

National Energy Board, *The Regulation of Electricity Exports: Report of Inquiry By a Panel of the National Energy Board Following a Hearing in November and December, 1986*, (June 1987), p.xiii.

[68] LCDC, *Annual Report 1981*, p.6.

LCDC, *Presentation*, pp.14-16.

LCDC, *Annual Report 1982*, p.2.

[69] Gerry Korbai, "Department of Mines and Energy Press Release", 19 March 1981, CFL Co. Background File, NLLL, p.1.

Interview Churchill-Peckford, 3 December, 2002.

Brian Peckford, "Letter to Pierre Trudeau, 24 September, 1980," (CFL Co. Background File, "Correspondence", NLLL), p.2.

[70] Peckford to Trudeau, 24 September 1980, p.2.

Pierre Trudeau, "Letter to Peckford, 20 October 1980," *House of Commons Sessional Papers* 321-7/25, pp.1-2.

[71] Marc Lalonde, "Letter to William Marshall, 10 June 1982," *House of Commons Sessional Papers*: 321-7/25, 24 November 1980, pp.1-2.

The Peckford administration exhibited a similar obstinate attitude while negotiating with Ottawa over the development of vast oil reserves off the province's east coast.

Interview, Churchill-Lalonde, 24 December, 2002.

[72] Marshall to Lalonde, 14 June 1982, pp.5-6.

[73] Peckford, "Statement on the Energy Priority of Newfoundland and Labrador," 21 November 1980, (CFL Co. Background File, NLLL), p.4.

[74] Peckford, "Statement on the Energy Priority", p.4, pp.17-18 and p.13.

[75] Arthur S. Mifflin, Herbert B. Morgan and James R. Gushue, "Decision of the Supreme Court of Newfoundland Court of Appeal 1981 No. 36." (5 March 1982), NLLL, p.i.

Mr. Justice McIntyre, "Supreme Court of Canada Decision Re. Upper Churchill Water Rights Reversion Act", (3 May, 1984), NLLL, p.1.

[76] McIntyre, "Supreme Court of Canada Decision," p.2, p.6.

[77] N.A. "Newfoundland and the Courts Part II: The Water Rights Reversion Act Case", *This Week*, 22 November 1982, p.17.

78 N.A. "Churchill Falls Issue Like Ping-Pong Game", *Charlottetown Patriot*, 23 September 1982, (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

N.A. "Ottawa to Back Quebec in Labrador Power Dispute", *Montreal Gazette*, 22 September 1982, (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

Brian Peckford, "Telex to Mark MacGuigan, 23 September 1982," (CFL Co Background File, NLLL), p.1.

N.A. "Newfoundland and the Courts", p.17.

Leo Barry, "Interprovincial Electrical Energy Transfers: The Constitutional Background," *Journal of Business Administration*, (Vol.12-Number 2, Spring 1981), p.214.

79 Interview, Jason Churchill with Edward Hearn, 8 January, 2003.

Quoted in Isabel B. Anderson, "Section 92A, Policy and Economic Development," in James N. McCrorie and Martha L. MacDonald, *The Constitutional Future of the Prairie and Atlantic Regions of Canada*, (Regina: Canadian Plains Research Center, 1992,) pp.80-81. Original citation: Canada, Department of Justice, *A Consolidation of the Constitution Acts, 1867-1982*, (Ottawa: Supply and Services, 1986,) p.33.

80. William D Moull, "The Legal Effect of the Resource Amendment - What's New in Section 92A?," in J. Peter Meekinson, Roy J. Romanow and William D. Moull, *Origins and Meaning of Section 92A: The 1982 Constitutional Amendment on Resources*, (Montreal: The Institute for Research on Public Policy, 1985,) p.33, p.47.

81 Interview Churchill-Young, 18 December, 2002.

Interview Churchill-Hearn, 8 January, 2003.

Interview Churchill- Furey, 10 January, 2003.

82 Vic Young and Jean Bernier, "Statement of Intent Regarding Churchill Falls Negotiations," (CFL Co. Background File, NLLL), pp.1-2.

83 Young and Bernier, "Statement of Intent Regarding Churchill Falls Negotiations," pp.1-2.

84 The existence of the agreement was not revealed until Brian Tobin decided to bring it into the public realm during his public relations campaign related to Churchill Falls in 1998.

Young and Bernier, "Statement of Intent Regarding Churchill Falls Negotiations," p.1, p.4, and p.5.

85 William Marshall, "Statement on the Negotiations Between Quebec and Newfoundland on the Upper Churchill, 18 May, 1984," (CFL Co. Sales of Power Background File, NLLL), p.2.

86 Yves L. Duhaime, "Notes Pour L'Allocution Du Ministre Yves L. Duhaime Devant La Chambre de Commerce de Montreal, 14 Juin, 1984," (CFL Co. Background File, NLLL), p.12.

N.A. "Quebec Minister Open to Talks on the Churchill Falls Proposal," *Globe and Mail*, (15 June, 1984), (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

N.A. "Quebec Urges Newfoundland to Return to Bargaining Table," *Ottawa Citizen*, (15 June, 1984), (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

[87] Duhaime, "Notes Pour L'Allocution," pp.11-13.

[88] Marshall, "Statement on the Negotiations", pp.6-6, pp.11-12.

[89] McIntyre, "Decision", p.4, pp.50-51.

[90] Hogg, *Constitutional Law of Canada Second Edition*, p.322.

[91] The final decision stated The Upper Churchill Water Rights Reversion Act [was] colourable legislation aimed at the Power Contract..... The pith and substance of the Act [was] to interfere with the right of Hydro-Quebec under the Power Contract [1969] to receive an agreed amount of power at an agreed price. This right to the delivery in Quebec of Churchill Falls power [was] situated outside the Province of Newfoundland and [was] beyond the territorial competence of the Newfoundland Legislature.

McIntyre, "Decision", p.4.

[92] Brian Mulroney, *Where I Stand*, (Toronto: Mcclelland and Stewart, 1983), pp.68-69.

[93] N.A. "Churchill Falls Power Dispute: Mulroney Offers to Take a Hand," *The Weekend Evening Telegram*, (8 December, 1984), p.1.

N.A. "PM Offers Aid in Hydro Dispute," *Halifax Chronicle Herald*, (8 December, 1984), (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

N.A. "Mulroney Backing Pleases Marshall," *Calgary Herald*, (11 December, 1984), (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

N.A. "L'achat d'Electricité Produite aux Chutes Churchill Mulroney Entend Régler le Différend," *Sherbrooke La Tribune*, (8 December, 1984), (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

[94] Crosbie went on to state that it went beyond the notion that Quebec had more federal seats, and included the entire history of French-English relations in the country and the threat of separation.

Interview, Churchill-Crosbie, 8 January, 2003.

[95]. N.A. "Supreme Court Rejects Newfoundland claim to Bigger Hydro Share", *Winnipeg Free Press*, 10 June, 1988, (Press Clippings, CFL Co. Sales of Power Background File, NLLL)

[96] N.A. "Supreme Court Rejects Newfoundland claim to Bigger Hydro Share," (Press Clippings, CFL Co. Sales of Power Background File, NLLL).

[97] Government of Newfoundland and Labrador, *Managing All Our Resources: A Development Plan for Newfoundland and Labrador, 1980-1985*, (St. John's: Government of Newfoundland and Labrador, 1980,) p.76.

[98] The Peckford administration was drawn to the oil and gas sector as it represented a "fresh start" in that there were no pre-existing long-terms contractual obligations. With other resources such as mining, forestry and hydroelectric energy, long-term contracts limited the government's manoeuverability in terms of economic development. Dr. House also commented that the sense of fatigue related to Churchill Falls was evident throughout the province. During their rounds of public consultations concerning the economic future of the province, the topic rarely came up. When it did, the attitudes expressed tended to reflect the fatalistic idea that the 1969 Contract was a bad deal but nothing could be done about it and the province was "stuck with it" until its termination in 2041.

Doug House, *Building on Our Strengths : Report of the Royal Commission on Employment and Unemployment*, (St. John's : Royal Commission on Employment and Unemployment, 1986,) pp.461-464.

Interview, Churchill-Crosbie, 8 January, 2003.

Interview Jason Churchill with Doug House, 29 November, 2002.

[99] Sandra D. Salinas and Raul Rincon, "Hydro Quebec Total Quality Management Program," viewed 8 December, 2002 at: http://www.baclass.panam.edu/courses/intb4365/Fall96/HYDROf96.html,

[100] Specifically, the proposal called for a 30 year contract that would initially grant Hydro Quebec access to 2,400 MW of power but this amount would decline over time such that by the end of the contract in 2031, Newfoundland and Labrador would have had 3,200 MW available to either use, to export, or some combination thereof. Newfoundland and Labrador would also have provided energy security well into the twenty-first century and access to 800 MW of power at 3 mills/KWH. This would have granted the province competitive energy rates in terms of the Canadian average and the province would have secured a $12 billion asset which would have generated income and employment into the subsequent century. The deal also included an escalation clause and stipulated that Hydro-Quebec would pay approximately between 73-74 mills for the energy. Additionally, the project would involve the Lower Churchill Development Corporation and the province served to receive upwards of $14 billion through its 51per cent share in the company. This amount could have been increased if the province decided to buy out Ottawa's 49 per cent share. The deal was projected to be of far greater value than the Hibernia Project. In terms of personal income benefits it was expected, by 2001 to have yielded $2.7 billion in terms of personal income benefits as opposed to $2.1 billion for Hibernia and $710 million in gross government revenue as opposed to $610 million for Hibernia.

Newfoundland and Labrador Hydro, "Churchill River Project Review: Presentation to Cabinet, 12 December, 1991, (CFL Co Background File, NLLL), pp.12-15, p.21.

[101] It was estimated that Quebec needed about 600 MW per year and the deal would have secured demand for four years.

Newfoundland and Labrador Hydro, "Churchill River Project Review," p.20.

[102] Newfoundland and Labrador Hydro, "Churchill River Project Review," pp.20-21.

[103] There were also some lesser points including: the technical input into the project by Hydro-Quebec, the price to be paid for power, and some clarification of language used in some sections.

Newfoundland and Labrador Hydro, "Churchill River Project Review," p.7, p.22.

[104] Interview, Jason Churchill with Rex Gibbons, 3 December, 2002.

[105] Salinas and Rincon, "Hydro Quebec Total Quality Management Program."

[106] Interview, Churchill-Gibbons, 3 December, 1991.

[107] In addition, Order 889 insisted that utilities use the Open Access Same Time Information Systems (OASIS) to provide information via the Internet concerning availability of spare capacity on transmission lines.

Federal Energy Regulatory Commission, (FERC) *1996 Annual Report,* viewed 12 December, 2002 at: http://www.ferc.gov/About/mission/anual96.htm, p.3.

[108] FERC predicted that the new regulations would "have far-reaching effects," in "requiring public utilities that own, control, or operate transmission lines to file nondiscriminatory open access tariffs that offer others the same transmission services they provide to themselves."

FERC, *1996 Annual Report*, p.3-5.

[109] Clyde Wells, "The Electrical Power Control Act and The Privatization of Hydro Act," (St. John's: Government of Newfoundland and Labrador, 1993), pp.3-4.

[110] Bonnie Belec and Jean Edwards Stacey, "Hydro Poll Shows Most Against Deal," *The Evening Telegram*, (30 March 1994), (Press Clippings, CFL Co. Sales of Power Background File, NLLL)

[111] The technical, legal and constitutional implications of the application of the EPCA is beyond the author's area of knowledge and therefore cannot be properly addressed, other than by way of introduction to the legislation.

Government of Newfoundland and Labrador, "Chapter E-5.1: An Act to Regulate the Electrical Power Resources of Newfoundland and Labrador, (Assented to June 9, 1994)," viewed 8 March, 2003 at http://www.gov.nf.ca/hoa/sr.

[112] Changes were subsequently made to the EPCA to exempt future hydro projects in Labrador from its provisions.

Government of Newfoundiand and Labrador, "Newfoundland Regulation 92/00:

Labrador Hydro Project Exemption Order under the *Electrical Power Control Act, 1994* and the *Public Utilities Act,* (O.C. 2000-206 & O.C. 2000-207) (Filed 14 December, 2000),

viewed 13 February, 2003, at: http://www.gov.nf.ca/hoa/regulations/rc000092.htm.

[113] Included in the general principles and rules of the AIT are stipulations for: "establishing equal treatment for all Canadian persons, goods, services and investments; prohibiting measures that restrict movement of persons, goods, services or investments across provincial or territorial boundaries;" and for ensuring that government policies "do not create obstacles to trade."

Internal Trade Secretariat, *The Agreement on Internal Trade: Annual Report, April, 1996 to March, 1997*, (Manitoba: Internal Trade Secretariat,1998,) p.7.

Mark R. MacDonald, "The Agreement on Internal Trade: Trade-Offs for Economic Union and Federalism," in Hermen Bakvis and Grace Skogstad (editors), *Canadian Federalism: Performance, Effectiveness, and Legitimacy*, (Don Mills: Oxford University Press, 2002,) p.140.

[114] G. Bruce Doern and Mark MacDonald, *Free Trade Federalism: Negotiating the Canadian Agreement on Internal Trade*, (Toronto: University of Toronto Press,1999,) pp.131-132.

Interview Jason Churchill with Frederick Allen, 6 December, 2002.

Interview Jason Churchill with Luigi Di Marzo, 6 December, 2002.

Internal Trade Secretariat, *The Agreement on Internal Trade*, p.9.

[115] Doern and MacDonald, *Free Trade Federalism*, p.132.

[116] It seems likely that provisions for energy could mirror the provisions in Chapter 13 on Communications which prohibit "government established or designated monopolies providing communication services or telecommunication facilities from using their monopoly position to engage in anti-competitive conduct in other markets."

Internal Trade Secretariat, *The Agreement on Internal Trade*, p.20.

[117] If Newfoundland and Labrador did decide to embrace Chapter 12, there are no guarantees that Nova Scotia would follow-suit. As the AIT is predicated upon consensus, the status of the Energy Chapter is likely to remain in limbo.

Shawn McCarthy, "Ministers Reach Deal to Liberalize Energy Trade", *The Globe and Mail*, (16 July, 1998).

Shawn McCarthy, "Provinces Close to Energy Trade Deal: Nfld., N.S. Demands Are Last Hurdle", *The Globe and Mail*, (15 June, 1998).

[118] Doern and MacDonald, *Free Trade Federalism*, p.132.

[119] FERC, *1998 Annual Report*, viewed 14 January, 2003 at: http://www.ferc.gov/About/mission/anual98.pdf, p.15.

Order 888 used the notion of "reciprocal rights" to demand that a company selling into the U.S. market would allow its infrastructure to be used by other companies wanting to access the market. Domestically, the notion of reciprocal rights would only have little, if any, application for the province as Newfoundland and Labrador does not border any markets and therefore cannot provide reciprocal access. The size of the Newfoundland and

Labrador energy-market is minuscule in comparison to the Canadian and American energy markets.

FERC, *1996 Annual Report*, p.4.

[120] — "Tobin Threatens to Switch Off Churchill Falls Project," *The Record*, (25 September, 1996), p.7.

Edward Greenspon and Barrie McKenna, "Tobin Warns He Will Pull Churchill Plug," *The Globe and Mail*, (21 September, 1996), p.A1, p.A3.

[121] Brian Tobin, "Why Churchill Falls must be Renegotiated," *Canadian Speeches*, December 1996 vol. 10, no. 8), p10-14.

Government of Newfoundland and Labrador, "Churchill Falls Media Briefing, 9 October, 1996.

[122] Brian Tobin, "New Opportunity and Challenge in the Deregulated Energy Market: Power from the Lower Churchill River in Labrador, 3 June, 1997," viewed 14 January, 2003 at: http://www.gov.nf.ca/exec/speeches/newport.htm.

Wayne Skene, *Delusions of Power: Vanity, Folly and the Uncertain Future of Canada's Hydro Giants*, (Vancouver: Douglas & McIntyre, 1997,) p.16.

Rheal Seguin, "Secret talks on Churchill Falls: Deregulation of U.S. Electricity Market Draws Quebec, Newfoundland Into Negotiations," *Globe and Mail*, (5 June, 1997), p.A1, p.A6.

[123] Tobin seemed to have accomplished a combination of the previously discussed approaches of the Moores and Peckford administrations. The above-mentioned side-deals dealt separately with the Upper and Lower Churchill River projects, but were presented as being part of a larger energy development package arrangement.

Susan Flanagan, "Churchill Falls Power Proposal," *Atlantic Business Magazine*, (March 1998), p.34.

[124] Government of Newfoundland and Labrador, "Newfoundland and Labrador Hydro to Negotiate Churchill River Developments, 9 March, 1998," viewed 12 January, 2003 at: http://www.gov.nf.ca/releases/1998/exec/0309n02.htm#Market.

[125] Government of Newfoundland and Labrador, "Newfoundland and Labrador Hydro".

Crosbie, "Churchill Falls Power, The Past, The Present And Future," p.35.

[126] Since May 1999, the FERC has been working to establish Regional Transmission Organisations (RTOs) to ensure smoother operation of the energy grid and energy marketing systems. The RTOs are predicated upon a principle of commonality which could be quite useful for Newfoundland and Labrador, if applied domestically.

FERC, "Docket No. RM99-2-000:Order No. 2000: Regional Transmission Organizations, 20 December, 1999," viewed 14 January, 2003 at http://www.ferc.gov/news/rules/pages/RM99-2A.pdf, p.2, p.511.

[127] For further explanations please see the FERC section below on "Pancaked Rates".

FERC, "Docket No. RM99-2-000:Order No. 2000," p.513.

[128] William L. Massey, "Regulatory Principles and Trends in U.S. Energy Markets, 24 June, 1999," viewed on 14 January, 2003 at: http://www.ferc.gov/news/speeches/commissionersstaff/mass6-24.pdf, p.5.

FERC, "Docket No. RM99-2-000:Order No. 2000," p.593-598.

[129] FERC, "Docket No. RT02-3-000: Motion to intervene of the Northeast Power Coordinating Council re ISO New England, Inc et al under RT02-3, 8 November, 2002," viewed at: http://ferris.ferc.gov/idmws/Doc_Info.asp, p.2, p.6.

[130] Linda K. Breathitt, "Remarks of Commissioner Linda K. Breathitt Federal Energy Regulatory Commission to the Canadian Electricity Association Third Annual Washington Forum, 27 March, 2001," viewed on 14 January, 2003 at:

http://www.ferc.gov/news/speeches/commissionersstaff/breath3-27.PDF, p.9.

[131] Until recently the power and influence of Hydro-Quebec in the American markets also hindered attempts by the province to gain access to the lucrative energy marketplace. Organisations such as the Power Authority of the State of New York (PASNY), have provided substantial, but limited, assistance to Newfoundland and Labrador in attempting to gain wheeling rights necessary to get electrical energy to the markets. PASNY has signed letters of intent and has expressed a strong interest in purchasing Lower Churchill power. However, PASNY would not go so far as to take actions that could potentially jeopardise or antagonise an essential supplier of energy for New York State, Hydro-Quebec.

Interview Churchill- Young, 18 December, 2002.

[132] Representatives from the province have also failed to gain any leverage from the National Energy Board. As discussed earlier, changes to the NEB Act in the form of Bill C-108 which, theoretically, enabled the NEB to expropriate land for a dedicated power corridor through Quebec territory, was not acted upon due to pragmatic economic and practical limitations. The province has subsequently, to no avail, attempted to get extra power for Newfoundland and Labrador by opposing Hydro-Quebec's requests for export permits to sell into the American markets. Hydro-Quebec's NEB applications have been opposed by Newfoundland and Labrador by claims that the energy was needed within Canada, specifically in the island portion of the province. The objections have been to no avail due to the short time of the contracts requested by Hydro-Quebec and due to a lack of infrastructure to get power to the island portion of the province.

In 1988, for example, the NEB approved a Hydro-Quebec export permit to send energy to New England for the period from September 1990 to August 2004. The NEB resoundingly defeated NLH's arguments. The NEB's considered its role to be ensuring that "all interconnected Canadian utilities" had access to power at competitive rates. This caused problems for the island portion of the province which had remained isolated from the mainland power grids. The NEB decision specifically stated:

The Board notes that there is no interconnection in place between Labrador and the Island, nor is one to be constructed ... The evidence also indicated that such an interconnection would not be economically feasible if Hydro-Quebec energy was available to the Island only during the period of the proposed export...

National Energy Board, "Reasons for Decision In the Matter of an Application Under the National Energy Board Act of Hydro-Quebec For Exports to the New England Utilities," (EH-3-87, February, 1988), pp.31-33, p.40.

Interview, Churchill-Young, 18 December, 2002.

[133] Former Minister of Mines and Energy, and current Provincial Supreme Court Justice, Leo Barry has argued that political considerations are at play at the Canadian Supreme Court level. Barry claimed that judicial decisions often reflected the "judge's view of the nature of Canadian Federalism and the effect that a decision one way or the other [would] have upon the operations of the federation."

Barry, "Interprovincial Electrical Energy Transfers", p.237.

[134] Former Federal Cabinet Minister John. C. Crosbie has said that it goes beyond the simplistic idea that Quebec has far more federal seats that Newfoundland and Labrador and is intricately intertwined with the entire history of French-English relations in Canada and the threat of Quebec separation. There tends to be bigger issues at play that go beyond interprovincial politics.

Interview Churchill-Crosbie, 8 December, 2002.

[135] The NPCC was formed in 1965 and has as its purpose to promote the reliable and efficient operation of the interconnected bulk power systems in Northeastern North America through the establishment of criteria, coordination of system planning, design and operations, and assessment and enforcement of compliance with such criteria. In the development of reliability criteria, NPCC, to the extent possible, facilitates attainment of fair, effective and efficient competitive electric markets.

At the moment Newfoundland and Labrador is left outside this influential group which is made up of the six New England States, New York State, Ontario, Quebec and the Maritime Provinces. The combined population of the area covered by the organisation is estimated to be 54 million people.

Northeast Power Coordination Council, "About NPCC," viewed on 4 February, 2003 at http://www.npcc.org/about_npcc.asp.

Northeast Power Coordination Council, "Membership Agreement," viewed on 14 February, 2003 at: http://www.npcc.org/PublicFiles/AboutNPCC/Membership_Agreement.pdf.

[136] Email, "Jennifer Budd to Jason Churchill, 30 December, 2002".

[137] Interview Churchill-Peckford, 3 December, 2002.

[138] Interview, Churchill-Young, 18 December, 2002.

[139] Newfoundland and Labrador Hydro/ Hydro-Quebec, "Framework For Churchill River Hydro Developments," (Press Release March 1998), p.1.

[140] While the speculative Project Neptune is of interest and could be of great eventual benefit to the province, it is not the totality of opportunities in the emerging North American energy Markets.

Energy Branch, Department of Mines and Energy, *An Electricity Policy for the 21st Century Options & Opportunities*, St. John's: Government of Newfoundland and Labrador, 2002, viewed 13 Febuary, 2003 at http://www.gov.nf.ca/mines&en/energy/policyreview/ep.pdf.

Energy Branch, Department of Mines and Energy, *Electricity Policy Review*, St. John's: Government of Newfoundland and Labrador, 2002, viewed 13, February, 2003 at: http: //www.gov.nf.ca/mines&en/energy/policyreview/epr.pdf.

[141] Interview, Churchill- Lalonde, 24 December, 2002.

Interview Jason Churchill with Chuck Furey, 10 January, 2003.

Lester B. Pearson, *Commons Hansard*, 15 February, 1966 p.1222.

[142] For example in January, 2003 it was reported that Governor George Pataki of New York State had pledged to increase his state's share of electricity generated from renewable resources from 17 to 25 per cent.

David Chandler, "Bush Defied Over Greenhouse Gas Cuts," *New Scientist*, (25 January, 2003), pp.4-5.

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Young, Vic, – 18 December, 2002.

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Royal Commission on
Renewing and Strengthening Our Place in Canada
Newfoundland and Labrador

Royal Commission on Renewing and Strengthening Our Place in Canada

Newfoundland and Labrador

Research Volume 4

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Royal Commission on Renewing
and Strengthening Our Place in Canada

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 4

June 2003

Foreword

This volume forms part of a four volume set, containing the research papers and polls contracted by the Royal Commission on Renewing and Strengthening Our Place in Canada. The Commission's main report and a summary report are available at the Office of the Queen's Printer, Confederation Building, St. John's, Newfoundland and Labrador, Canada, A1C 5T4. The summary report is available in English, French, Inuktitut, Innu-aimun, Mi'kmaq, French and Braille. All of the Commission's published materials, including research papers and polls, are also available at the web site: *www.gov.nl.ca/royalcomm*.

The Commission's Terms of Reference called for a research program to address key issues. The goals of the research program were: (i) to provide information and an independent assessment of key issues in support of the analysis, conclusions and recommendations contained in the final Report; (ii) to generate fresh perspectives and new ideas on critical issues; and (iii) to provide the public with a body of information and analysis of important issues. The nature and extent of the Commission's research program were shaped by the Commission's short mandate of approximately one year.

Most of the research contracted by the Commission consisted of research and analysis papers designed to provide a thematic overview of the issue to be addressed, a review of existing literature, an analysis of the state of knowledge on the issue, conclusions and, where relevant, policy options or recommendations for consideration by the Commission. A smaller number of research projects were more extensive and more original in research scope, including financial and economic analyses, polls and other surveys. In addition, the Commission contracted independent commentaries from a number of authors; these are also included in these collected papers. Most of the externally contracted research was subject to peer review. Since the papers are collected in four volumes, a full list of the 28 published papers and two public opinion polls is contained as an appendix to this volume.

The analyses contained in these published papers remain the responsibility of the authors, and the views expressed do not necessarily reflect those of the Commission.

The Commission expresses thanks to the authors for undertaking their important work in a professional manner, within the constrained time-frames of the Commission's mandate. We wish to acknowledge and thank those persons who provided independent peer review of the research papers. Overall, the research program made an important contribution in shaping the Commission's understanding of the issues and the development of its recommended Pathway to Renewal founded on a new partnership between the federal and provincial governments.

Victor Young, O.C. Chair	Elizabeth M. Davis, RSM Commissioner	Hon. James Igloliorte Commissioner

Collected Research Papers of the Royal Commission on Renewing and Strengthening our Place in Canada

Volume 4
Table of Contents

Foreword iii
Notes on Authors vii

Collected papers:

Ernie Stokes and Robin Somerville
Newfoundland and Labrador: Towards an Assessment of the Benefits of the Canadian Economic Union 1
Craig Brett
Demographic Trends and Implications for Public Policy 57
Lawrence F. Felt
Small, Isolated and Successful: Lessons from Small, Isolated Societies of the North Atlantic 89
Wade Locke and Scott Lynch
What Does Newfoundland and Labrador Need to Know About the Knowledge-Based Economy to Strengthen Its Place in Canada? 137
P.J. Gardiner Institute for Enterprise and Entrepreneurship
Built to Last Entrepreneurial Success Stories of Newfoundland and Labrador 203
David G. Norris
The Fiscal Position of Newfoundland and Labrador 275

Appendix 431

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Royal Commission on Renewing and Strengthening Our Place in Canada

Newfoundland and Labrador: Towards an Assessment of the Benefits of the Canadian Economic Union

– Ernie Stokes and Robin Somerville

April 2003

The views expressed herein are solely those of the authors and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

Labrador and Newfoundland entered into Confederation with Canada in 1949. The new province helped "complete" the country from coast to coast to coast. It also brought an enormous wealth of natural resources including the Grand Banks Fishery and important military infrastructure. In return, Newfoundland and Labrador gained access to a growing range of national social programs, inter-governmental transfer payments and unfettered access to markets for goods and labour in the rest of country.

This report provides information to assist with the examination of the benefits to Newfoundland and Labrador and to the rest of Canada of the Canadian economic union with specific focus on the contributions the province makes to the Canadian economy in relation to fiscal and other benefits. These contributions are examined through the following relationships: (i) trade, or the import and export of goods and services; (ii) migration of people, both in their capacity as consumers and in their capacity as workers; (iii) interregional "migration" of other production factors, notably investment capital; and (iv) the national government's revenue collection and expenditure in the province. The analysis reviews the benefits from the Canadian economic union on each of these relationships providing a broad view of Newfoundland and Labrador's contribution to and relationship with the rest of Canada.

About this Report

This report was prepared by The Centre for Spatial Economics, a consulting organization created to improve the quality of spatial economic and demographic research in Canada. The report was commissioned by the Royal Commission on Renewing and Strengthening our Place in Canada. The views in this report reflect those of the authors and are not necessarily those of the Royal Commission.

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Contents

Executive Summary 9

Introduction 11

- **Approach** 12

Newfoundland and Labrador's Place in Canada 13

- **Up to Confederation** 13
- **The Struggle for Growth** 14
- **Economic Review: 1981-2001** 15
- **Major Industrial Projects in Newfoundland and Labrador** 18
- **The Economic Outlook for Newfoundland** 19
- **Other Contributions to the Nation** 19

Fiscal Profile 20

- **Tax Base in Newfoundland and Labrador** 22
- **A Comparison of Federal Spending by Province** 23
- **Federal Fiscal Benefits to Newfoundland and Labrador** 24

Trade Profile 26

- **Newfoundland and Labrador's Domestic Trade Partners** 29
- **Newfoundland and Labrador's International Trade Partners** 31
- **Benefits from Trade** 33

Labour Mobility 34

- **The Costs of Labour Mobility** 36
- **The Benefits of Labour Mobility** 38

Hydro-Electric Power 41

- **Quebec's Gain** 41
- **Newfoundland and Labrador's Pain** 41
- **A Brighter Future?** 44

Natural Resources 44

- **The Oil and Gas Sector** 46
- **The Mining Sector** 49
- **The Forestry Sector** 50
- **Natural Resources, Who Benefits?** 50

Endnotes 53

References 57

Executive Summary

This report was commissioned by the Royal Commission on Renewing and Strengthening our Place in Canada to provide information regarding the economic, fiscal and other benefits to Canada and to Newfoundland and Labrador of the province's presence in the federation.

In 1949, Newfoundland and Labrador joined Canada to secure a brighter economic future for itself – and its new country. In the ensuing half century, Newfoundland and Labrador has certainly become wealthier but has struggled to keep pace economically with the rest of the country and with its trading partners. Perhaps unfairly, the province has too often been characterized as a place with no jobs and dependent upon the transfer payments it became entitled to upon Confederation.

A region's growth involves at least four kinds of external relationships: (i) trade, or the import and export of goods and services; (ii) migration of people, both in their capacity as consumers and in their capacity as workers; (iii) interregional "migration" of other production factors, notably investment capital; and (iv) the national government's revenue collection and expenditure in the region. This report examines the current state and evolution of each of these external relationships and in doing so provides information to help assess the benefits to Newfoundland and Labrador from the Canadian economic union.

Fiscal Benefits

This report finds that the federal government's net spending in the province has not been a major factor in the overall national fiscal position. Newfoundland and Labrador's size meant that more populous provinces receive substantially larger sums of federal money and have a larger impact on the federal government's overall fiscal position.

Federal spending in Newfoundland and Labrador has declined over the last few years. In fact federal spending in Newfoundland and Labrador as a share of spending throughout the country has fallen 0.5% over the last decade – the largest decline of any province – while over the same period Ontario and British Columbia have seen their share of Federal spending rise.

Trade Benefits

The rest of Canada has and continues to benefit from the economic union by exporting goods and services to Newfoundland and Labrador. Companies in Ontario and Quebec have benefited the most from trade with Newfoundland and Labrador. While consumers in Newfoundland and Labrador have benefited from lower prices for imported goods and services since Confederation, it is only now that Newfoundland and Labrador' businesses are starting to see a significant increase in their benefit from the domestic market.

Investment in the development of the province's major oil projects will continue to support high levels of imports for a few years. The production from these projects will, however, start to generate substantial export revenue and help push the trade balance towards a surplus position.

Labour Benefits

People from Newfoundland and Labrador can be found across the country making significant contributions to their local economy. This study estimated that for every 10 current residents in Newfoundland and Labrador, there are 4 people born in the province that are now living elsewhere in Canada. By moving to fill jobs required in the rest of Canada, the Newfoundland and Labrador labour force has acted to reduce labour market disruptions caused by labour shortages in other provinces. The current study estimates that a flow of workers to other provinces the amount of which is equal in size to the number of people born in Newfoundland and Labrador but now resident in other provinces would reduce competitiveness and economic performance leading to a $1.1 billion reduction in the federal government surplus. The latter amount is equal to about 40% of the current federal deficit in the province.

The loss of these people has, however, been at best a mixed blessing to Newfoundland and Labrador. The loss of productive workers and their associated demand depresses economic activity – but it does reduce competition for jobs for those that remain.

Natural Resource Benefits

For the last forty years investment capital has been concentrated in the development of the province's natural resources. While these projects have brought jobs and income there are lingering questions about whether the province receives an appropriate return on its natural resource wealth.

The impact of the Churchill Falls hydro-electric power contract with Hydro Quebec is significant. The loss in real provincial GDP[1] (1997 dollars) was estimated to be between $1,500 and $3,000 a person each year throughout the 1990s and – even at the lower end of the range – would be enough to pull Newfoundland and Labrador ahead of both Nova Scotia and New Brunswick in terms of per capita GDP. The benefits to Quebec's economy have been equally large – supporting the development of a powerful manufacturing sector and providing windfall gains on their electricity exports. The situation has, up to now, stalled the development of hydro-electric resources that would reduce Canada's dependence on fossil fuels and help us meet our greenhouse gas emissions targets.

The government of Newfoundland and Labrador appears to collect, at best, a modest return on its natural resource assets.

- The high costs of development and exploration mean that the province collects about one eighth the revenue per barrel of oil that Alberta does. This low revenue rate, combined with a comparatively short lifespan for the projects, means that Newfoundland and Labrador will not benefit from this resource to the same extent that the other oil producing provinces have.
- Provincial revenues from other mining activity are similar to those in other provinces. The more critical issue for this sector is to process the minerals locally. The recent agreement on development at Voisey's Bay should help the province benefit in a more significant way from this resource.
- Provincial revenues from the forestry sector are the second lowest in the country. The benefit from this resource appears to accrue to the owners of the province's pulp and paper mills.

Appropriate natural resources policies are extremely hard to define. Ideally, the province should capture a larger share of the economic rent from its natural resources to help ensure a more prosperous future. The analysis in this report, although limited in scope, would appear to support a review of the province's natural resources policies.

Other Benefits

Confederation brought a host of other benefits to Canada. The new province helped "complete" the country from coast to coast to coast. While politically Confederation prevented Newfoundland and Labrador from slipping into the United States orbit it has not inhibited the province's strategic importance to continental defence. By adding 406,000 square kilometres of land to the country, Canada gained a wealth of natural resources and dramatically extended its coastline. As a result, the adoption of the 200 nautical mile limit allowed Canada to add 1,826,000 square kilometers of offshore waters to its territory with access to all the riches of the Atlantic Ocean. This physical enlargement also provided a new shipping outlet on the Atlantic sea lanes with St. John's harbour and Gander airport is an important waypoint for international flights.

Finally, the people of Newfoundland and Labrador have not only contributed economically to the success of the rest of the country but have also enriched the culture of the nation through the work of its writers, artists, performers and politicians. The province also enriches our history as the site of the first European settlers in North America.

This report has explored some of the dimensions of the Canadian economic union and Newfoundland and Labrador's relationship with it. In 1949, a small economy became part of a larger economy. This action entailed the creation of a customs union for the movement of goods, services and capital; the removal of barriers to labour movement; and the reduction of non tariff barriers. The process of adjustment to these changes has defined economic development in the province since Confederation. With the tumultuous decade of the 1990s behind it, Newfoundland and Labrador can now look forward to a period of sustained growth. The process of adjustment and integration is still ongoing and the policy choices made in St. John's, Ottawa and the other provincial capitals will help determine how the benefits of the economic union affect the people of Newfoundland and Labrador.

Introduction

The Royal Commission on Renewing and Strengthening our Place in Canada was proclaimed to address the issues surrounding the province's relationship with Canada. This report was commissioned by the Royal Commission to provide information on the benefits to Newfoundland and Labrador and to the rest of Canada of the Canadian economic union with specific focus on the contributions the province makes to the Canadian economy in relation to fiscal and other benefits. The report consists of several chapters focusing on the following topics:

1. A review of Newfoundland and Labrador's place in the Canadian economic union;

2. An examination of the fiscal balance and major trends in this balance over the last decade;
3. A review of Newfoundland and Labrador's trade patterns in both international and interprovincial terms;
4. The economic impact of net out-migration;
5. The economic impact of the Churchill Falls contract;
6. A review of other natural resources management and policies.

This report was prepared by The Centre for Spatial Economics, a consulting organization created to improve the quality of spatial economic and demographic research in Canada. The views in this report reflect those of the authors and are not necessarily those of the Royal Commission.

Approach

A region's growth involves at least four kinds of external relationships: (i) trade, or the import and export of goods and services; (ii) migration of people, both in their capacity as consumers and in their capacity as workers; (iii) interregional "migration" of other production factors, notably investment capital; and (iv) the national government's revenue collection and expenditure in the region.

This report examines the current state and evolution of each of these external relationships and in doing so provides information to help assess the benefits to Newfoundland and Labrador from the Canadian economic union. While this report does provide the reader with a set of information that can be used to help assess the benefits from the Canadian economic union, it does not take the next step of providing a set of cost/benefit accounts that would yield an overall measure of the benefits from the Canadian economic union. Such an undertaking would require a significant level of effort and likely include many simplifying assumptions that would leave the analysis open to criticism. And while each reader will likely draw their own conclusions about the overall benefits of the Canadian economic union, the authors hope that this report has successfully highlighted some areas where additional analysis and research may be of benefit to the province.

Chapter 2 provides an overview of Newfoundland and Labrador's place in Canada and discusses the economic events that have shaped the province since Confederation.

Chapter 3 examines the last of the four external relationships listed as affecting a region's growth. It reviews the contribution the federal government makes through transfers and spending in the province. Federal spending in Newfoundland and Labrador has never been large enough to substantially affect the Nation's finances. The importance of federal net spending in the province has declined sharply over the last few years for two reasons: (i) federal spending restraint, and (ii) growth of the provincial economy.

The province's trade patterns are reviewed in Chapter 4. The rest of the country has historically benefited from trade with Newfoundland and Labrador. While consumers in Newfoundland and Labrador have benefited from lower prices for imported goods and services since Confederation, it is only now that Newfoundland and Labrador's businesses are starting to see a significant increase in their benefit from the domestic market. The province's current trade deficit is partly due to the investment required to develop its offshore oil potential and an improvement in the province's balance of trade can be hoped for in just a few years.

People from Newfoundland and Labrador can be found across the country making significant contributions to their local economy. The loss of these people has, however, been at best a mixed blessing to Newfoundland and Labrador. Chapter 5 discusses the importance of interprovincial migration to both the national and provincial economies.

Chapters 6 and 7 examine the benefits of investment capital to the province. For the last forty years this has been concentrated in the development of the province's natural resources. While these projects have brought jobs and income many question whether the province receives an appropriate return on its natural resource wealth.

Newfoundland and Labrador's Place in Canada

Labrador and Newfoundland entered into Confederation with Canada in 1949. The new province helped "complete" the country from coast to coast to coast. It also brought an enormous wealth of natural resources including the Grand Banks Fishery and important military infrastructure. In return, Newfoundland and Labrador gained access to a growing range of national social programs and inter-governmental transfer payments and unfettered access to markets for goods and labour in the rest of country. Above all, Newfoundland and Labrador joined Canada to secure a brighter economic future for itself – and its new country.

In the ensuing half century, Newfoundland and Labrador has certainly become wealthier but has struggled to keep pace economically with the rest of the country, with its trading partners, and with similar North Atlantic economies[1]. Perhaps unfairly, the province has too often been characterized as a place with no jobs and dependent upon the transfer payments it became entitled to upon Confederation. This chapter provides a brief overview of the economic events that have shaped the province since Confederation.

Up to Confederation

When first discovered by Europeans, the waters off Newfoundland were described as "swimming with fish." Fish and the annual seal hunt were the mainstays of the region's economy in the centuries prior to Confederation. The first half of the twentieth century saw the region's prospects shift from relative prosperity, to the depths of depression and then to an economic boom.

The completion of the cross island railroad, the development of large scale mining and saw mill operations, and the construction of giant newsprint complexes ushered in the start of the twentieth century. Local manufacturing also flourished on the basis of tariff protection, high transportation costs and a growing population base. And, in 1927, the Judicial Committee of the Privy Council of Great Britain confirmed Newfoundland's ownership of Labrador.

The Great Depression virtually wiped out export markets for Newfoundland's resource-oriented economy. The Newfoundland government faced bankruptcy and had to appeal for financial assistance from Great Britain. Newfoundland's strategic importance to the defence of North America during the Second World War led to an abrupt reversal of fortunes. The Allies embarked on a huge program to build military facilities throughout Newfoundland. This construction and the jobs to support the military bases raised incomes substantially from pre-war levels. The war also generated a revival in the demand for primary goods that was sustained in the post-war years.

When the war ended, Newfoundland's economy had recovered to the point that it no longer needed Britain's financial assistance. It was, therefore, with a sense of optimism and in a stronger economic position than it had been for many years that Newfoundland considered its political future. A pair of referendums in 1948 resulted in Confederation with Canada. Newfoundland hoped to raise its standard of living through lower prices for goods – through the removal of tariff barriers – and access to Canadian social welfare programs. Canada gained control of much of the island's military infrastructure and the fishery.

The Struggle for Growth

The immediate benefit from Confederation was the increase in personal disposable income from personal transfer payments. The resulting rise in consumer spending lured mainland retail organizations to the province which provided jobs and provided a greater range of goods at lower prices than were previously available. The federal government also contributed to the development of schools, hospitals, harbour facilities and the Trans-Canada Highway and associated trunk roads.

These developments, however, had ramifications for other parts of the provincial economy. Goods from the mainland – already cheaper because of mass production – were no longer subject to customs duties and received transport subsidies and so they quickly forced local agriculture and manufacturing operations out of business. The Gulf transportation subsidy, however, provided little support for Newfoundland and Labrador's exports. These were mainly newsprint, fish and iron ore and were sent by ship to market rather than via the subsidized North Sydney/Port-aux-Basques railway-ferry link. As a result, the province developed a persistent trade deficit with the rest of the country. The current sources and trends of this deficit are discussed in Chapter 4.

A variety of other federal and provincial government policies also had profound impacts on the provincial economy: defence policy, industrial subsidies, natural resource mega-projects, and fisheries management.

In the early years of the Cold War, Newfoundland and Labrador remained important to the defence of North America. The military bases provided employment and income for several thousand people. Their closure in the 1960s and 1970s had a significant impact on people and communities throughout the province.

In the 1950s the provincial government tried to diversify the economy to reduce its dependence upon its cyclical natural resource base. Public funds were used to finance new industries that, once successfully operating, were to be sold to private enterprise. Few buyers emerged so the government tried to lure foreign capital through an offer of 50 per cent funding of loans to start up new factories. Most of these ventures failed and by the mid 1950s the provincial government's cash surplus was exhausted with virtually no permanent jobs or other economic benefits to show for it.

The provincial government then decided to encourage interest in its natural resources. It embarked upon a fisheries development program, established the Newfoundland and Labrador Corporation (NALCO) as a holding company for the province's uncommitted natural resources, brought about the creation of the British Newfoundland Corporation (BRINCO), and undertook extensive surveys of the province's mineral, timber and hydro-electric potential.

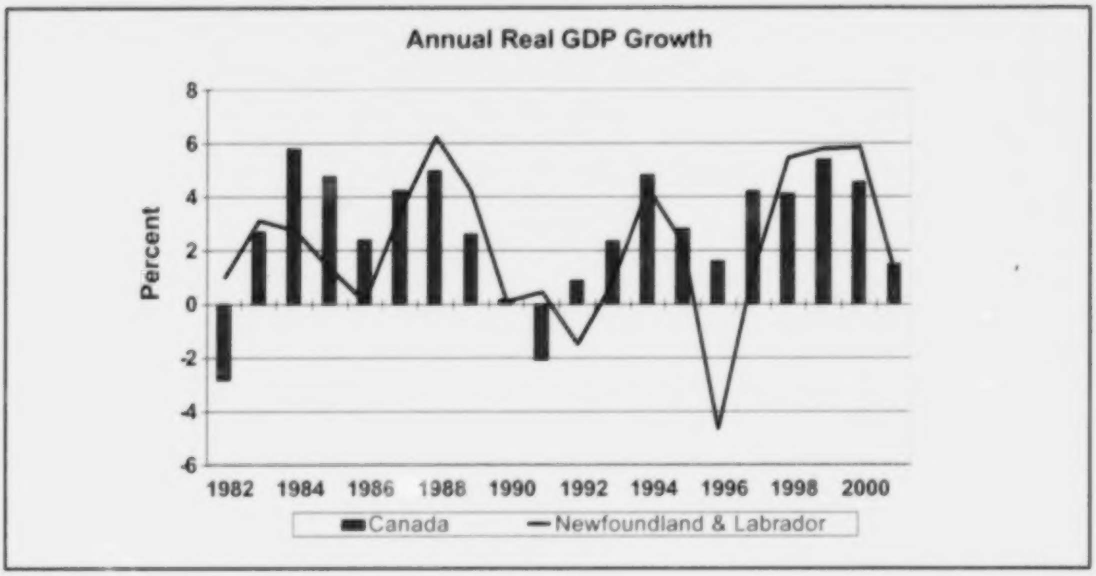
The last few decades have witnessed many dramatic new projects. Unfortunately, the decisions behind some of these major projects often had as much to do with politics as with economic development and the potential benefits of these projects were diminished by the conditions under which they were launched. And in some instances, the government failed to set royalty rates to reflect the fact that natural resources normally have an intrinsic market value over and above the costs of exploiting them. This return is called "economic rent" and it could provide the province with substantial revenue throughout the lives of the projects. Two of the chapters in this report focus on the rent from Newfoundland and Labrador's natural resource based development.

Newfoundland's earlier relative underperformance can be traced to its misfortunes with the fishing industry, while its recent surge in growth can be attributed mainly to the construction and bringing on stream in 1997, of the Hibernia offshore oil field. It is possible to see some of the massive changes in Newfoundland and Labrador's economy over the last 15 years in the employment trends shown in Figure 2. The collapse of the fishery combined with federal spending cutbacks led to widespread job losses in the 1990s. Employment losses in the combined fishing, forestry and mining sector[3] were comparatively minor in relation to the losses experienced in the manufacturing sector. The province's manufacturing sector went from employing over 24,000 people in 1989 to less than 12,000 people in 1995. Manufacturing has made a partial recovery over the last few years and employed 17,000 people in 2002.

Economic Review: 1981-2001

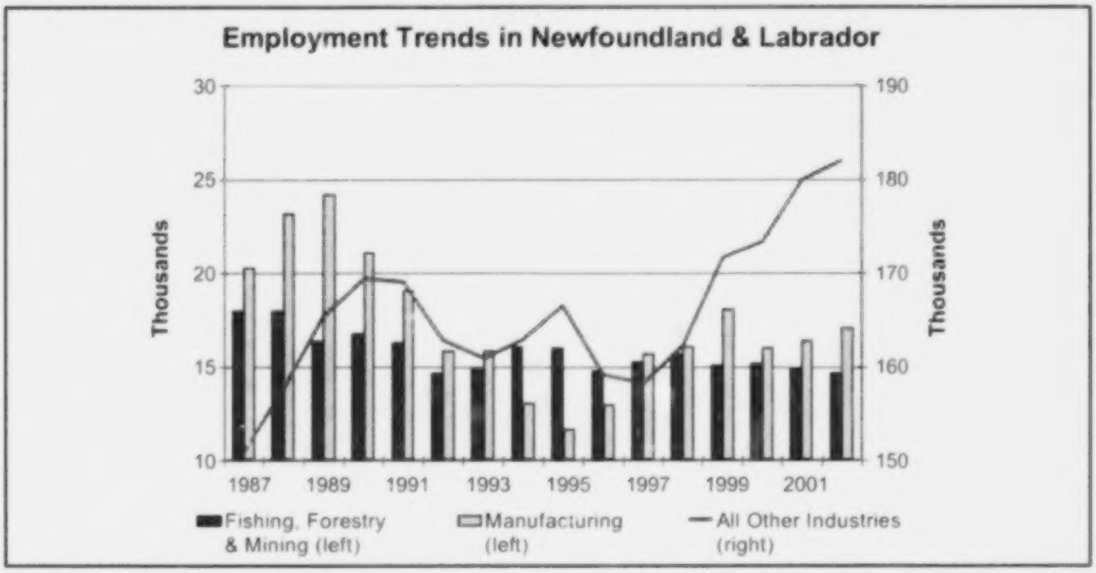
Over the past two decades the pace of economic growth was uneven for both Canada and Newfoundland (Figure 1). Newfoundland did not fare as well as Canada on average over this period, growing at an average annual pace of 2.2 percent compared to 2.7 percent nation-wide. But growth has picked up significantly in Newfoundland in recent years: between 1997 and 2001 its real GDP grew at an average annual pace of 4.6 percent compared to an average of 3.9 percent for Canada.

Figure 1



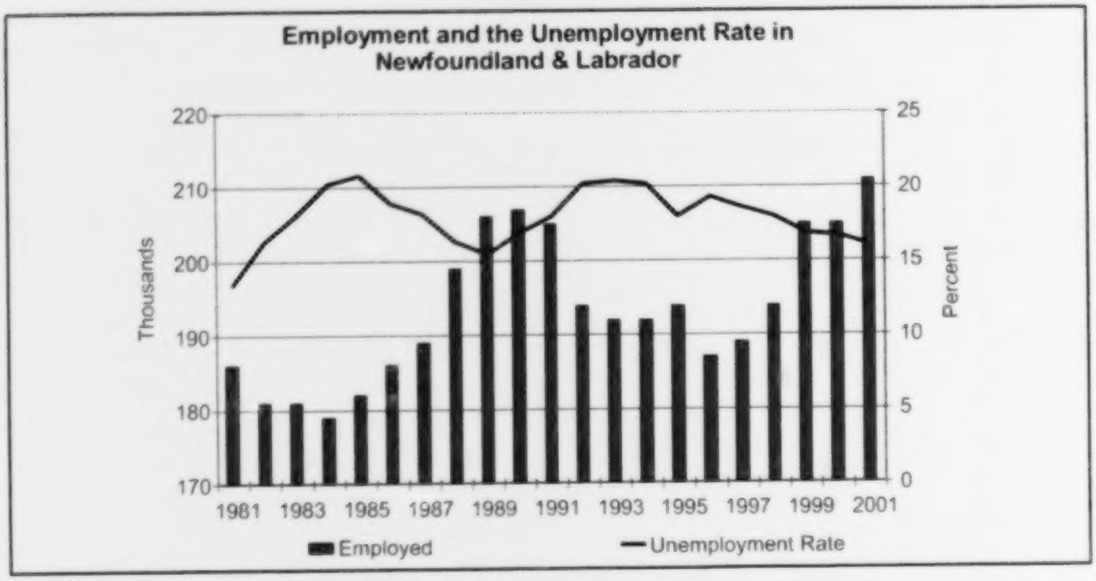
Source: Statistics Canada, Provincial Economic Accounts[1]

Figure 2



Source: Statistics Canada, Labour Force Survey

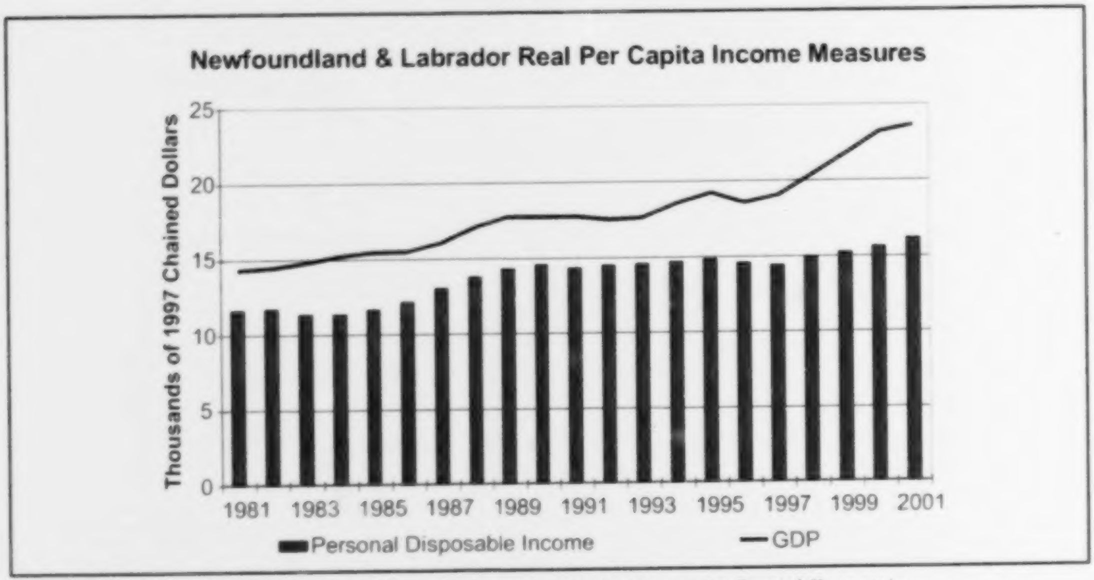
Figure 3


Employment and the Unemployment Rate in Newfoundland & Labrador

Source: Statistics Canada, Provincial Economic Accounts

Employment in all other sectors of the economy was also significantly curtailed from 1992 until the end of that decade but has expanded rapidly over the last few years (Figure 2). Despite Newfoundland's recent improvement in economic activity its total employment is only now higher than it was a decade ago (Figure 3). Job gains in the province's high-productivity oil and gas sector to date cannot offset the huge job losses it suffered in its low-productivity fishing industry in the early 1990s. And while Newfoundland's employment has grown, its unemployment rate remains above 16 percent, the highest in the country (Figure 3).

Figure 4


Newfoundland & Labrador Real Per Capita Income Measures

Source: Statistics Canada, Provincial Economic Accounts; The Centre for Spatial Economics

Income support for the unemployed in Canada was drastically reduced in the deficit-cutting days of the mid-1990s despite the slow job growth conditions nation-wide. As a result, Newfoundland faced a mass exodus of people over the last decade, a trend that accelerated in recent years despite the higher levels of economic activity. Since 1980 net out-migration from Newfoundland has totaled over 117,000 people in a province with a total population in 2002 of just 519,000. Some of the consequences of this migration are examined in Chapter 5.

High real GDP and employment growth combined with a declining population has led to a rapid rise in real GDP per capita (Figure 4). These gains are not accruing to the personal sector, however[4]. Real personal disposable income per capita has not increased nearly as much as real GDP per capita. Instead the gains have gone to improving the fiscal positions of the federal and provincial governments and to improving corporate profits. In Newfoundland and Labrador the improvement in corporate profits since 1997 has been dramatic (see Figure 17 in Chapter 5). Corporate profits rose from 8% of provincial GDP in 1997, below the national average, to 21% in 2000, well above the national average. The share fell in 2001 to 17% and is expected to return to values closer to – but still probably above – those seen throughout the 1980s and 1990s. This decline will, barring major tax increases, help personal incomes in the province improve.

Major Industrial Projects in Newfoundland and Labrador

The discovery of large oil reserves continues to trigger exploration activity around Newfoundland and Labrador. In 2002 Terra Nova began full production (estimated at about 36 million barrels of oil per year). Another site, White Rose, is expected to undergo development and could begin drawing oil before the end of 2005. White Rose has an estimated reserve of 230 million barrels of oil. Current oil and natural gas reserves in the Grand Banks of Newfoundland have the potential of producing 5.1 trillion cubic feet of natural gas and 2.1 billion barrels of oil.

The government of Newfoundland and Labrador and Inco entered into an agreement to develop the Voisey's Bay nickel deposit in October 2002. The development will include a mine and mill at Voisey's Bay and a processing plant at Argentia. Production is expected to begin in 2006 and continue for about 30 years.

In August, 2002 the provinces of Newfoundland and Labrador and Quebec discussed the principles that could guide negotiations for development of the Gull Island Hydro-electric power project on the lower Churchill River in Labrador. A decision to proceed with the project has not been made. If agreement is reached, then it is expected that an environmental assessment and construction would take eight to nine years to complete and cost $4 billion.

A survey of major projects in Newfoundland and Labrador reveals that major shifts are currently underway in the industrial development direction of the province. The oil and gas sector at $2.3 billion and the utilities sector at $4.1 billion together account for most of the projects. The bulk of the oil and gas expenditures are accounted for by the White Rose project. The bulk of the utilities expenditures ($4.0 billion between 2006 and 2012) would be accounted for by the Lower Churchill River Power Project (Gull Island).

By comparison, major projects in the other export-based sectors in Newfoundland and Labrador are relatively modest. Forestry industry investment was expected to total $114 million in 2002 and 2003. Investment in the mining sector apart from oil and gas is expected to total $785 million for three projects: Voisey's Bay, the Thundermin Resource Inc. and Queenston Mining Inc. base metal project and the Iron Ore Company of Canada's long-term capital investment program. Activity in the fishery is comparatively small, but has also shifted focus over the last decade. Current infrastructure development includes aquaculture expansion and plants to process species such as shrimp and crab.

The Economic Outlook for Newfoundland

The discussion in the remainder of this report makes assumptions about future economic developments in the province. The Centre for Spatial Economics maintains an economic model of the Province of Newfoundland and Labrador which it uses to conduct periodic forecasts of provincial activity. The following bullets are highlights from the last forecast.

- The Newfoundland and Labrador economy is expected to grow at an average annual rate of 3.1 percent between 2000 and 2010 reflecting the continued strong growth expected throughout the decade in the oil and gas extraction sector.
- That pace is slightly faster than the average pace of 2.7 percent per year witnessed in the period from 1995 to 2000.
- Between 2010 and 2020 we expect Newfoundland's pace of growth to slow to 1.6 percent at annual rates as the oil and gas sector reaches capacity and its rate of growth slows to that of external demand.
- The high rate of productivity characterizing the oil and gas sector means that, despite the strong projected output growth, employment growth will be relatively slow. We expect total employment to grow by just 0.9 percent per year between 2000 and 2010, then to slow to just 0.4 percent per year between 2010 and 2020.
- Because the unemployment rate in Newfoundland is the highest in the country, and because the projected pace of job creation is relatively modest, net out-migration will continue throughout the projection horizon. Thus the total population of the province will continue to decline.
- Net out-migration means the growth of community-based jobs will be constrained, as well, thus contributing to the projected slow pace of employment and population growth.

Other Contributions to the Nation

Confederation brought a host of other benefits to Canada. The new province helped "complete" the country from coast to coast to coast. While politically Confederation prevented Newfoundland and Labrador from slipping into the United States orbit it has not inhibited the province's strategic importance to continental defence. By adding 406,000 square kilometres of land to the country, Canada gained a wealth of natural resources and dramatically extended its coastline. As a result, the adoption of the 200 nautical mile limit allowed Canada to add

1,826,000 square kilometers of offshore waters to its territory with access to all the riches of the Atlantic Ocean. This physical enlargement also provided a new shipping outlet on the Atlantic sea lanes with St. John's harbour and Gander airport is an important waypoint for international flights.

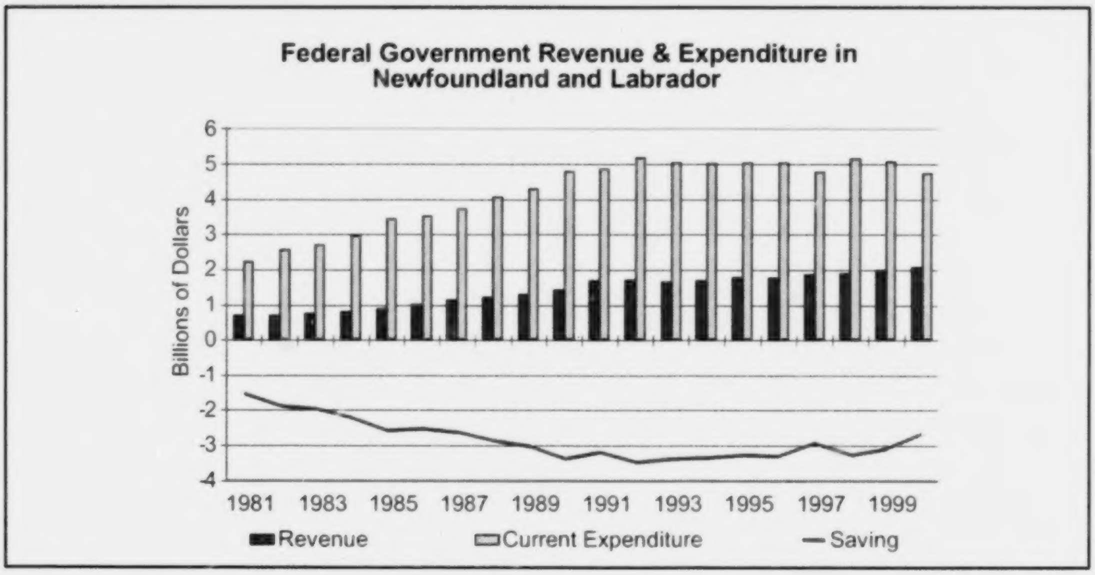
Finally, the people of Newfoundland and Labrador have not only contributed economically to the success of the rest of the country but have also enriched the culture of the nation through the work of its writers, artists, performers and politicians. The province also enriches our history as the site of the first European settlers in North America.

In summary, the small economy of Newfoundland and Labrador became part of the much larger Canadian economy in 1949. This action entailed the creation of a customs union for the movement of goods, services and capital; the removal of barriers to labour movement; and the reduction of non tariff barriers. The process of adjustment to these changes has defined economic development in the province since Confederation. With the tumultuous decade of the 1990s behind it, Newfoundland and Labrador can now look forward to a period of sustained growth. The process of adjustment and integration is still ongoing and the policy choices made in St. John's, Ottawa and the other provincial capitals will help determine how the benefits of the economic union affect the people of Newfoundland and Labrador.

Fiscal Profile

It is a well known fact that the federal government spends more money in Newfoundland and Labrador than it collects. It has been this way, year in, year out since Confederation. What is less well known is how this relates to other provinces and its overall impact on the nation's finances.

Figure 5

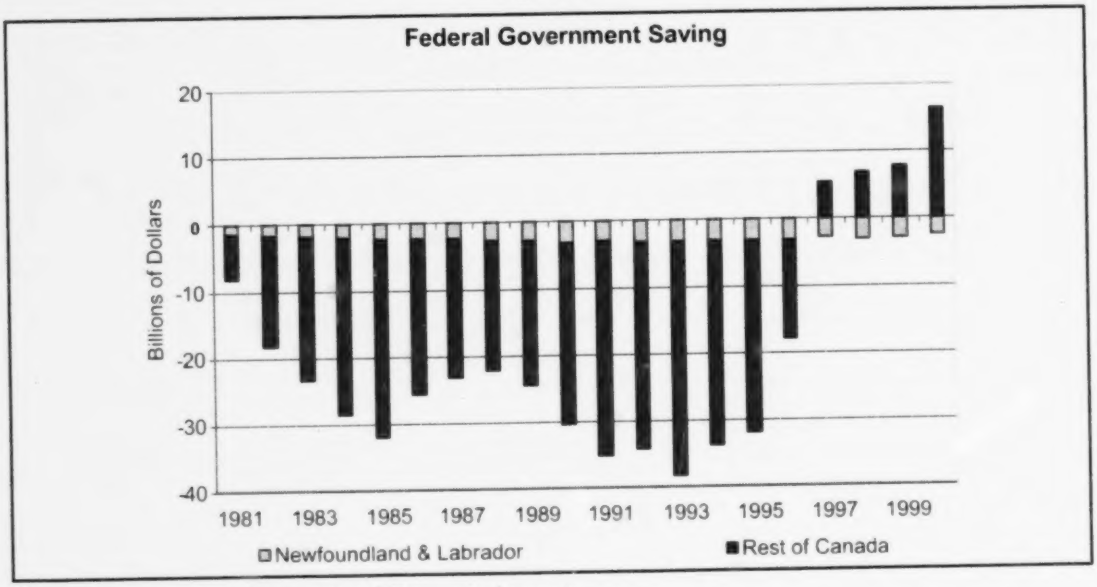


Source: Statistics Canada, Provincial Economic Accounts

Figure 5 provides an overview of the federal government's fiscal position in the province of Newfoundland and Labrador. Federal government revenue from personal and corporate income tax, the GST and other sources has risen steadily over the last twenty years (5.8% a year compounded). Federal government spending in the province, however, peaked in 1992 and has been generally declining ever since. The net result is that the federal deficit in Newfoundland and Labrador has shrunk $0.8 billion since 1992.

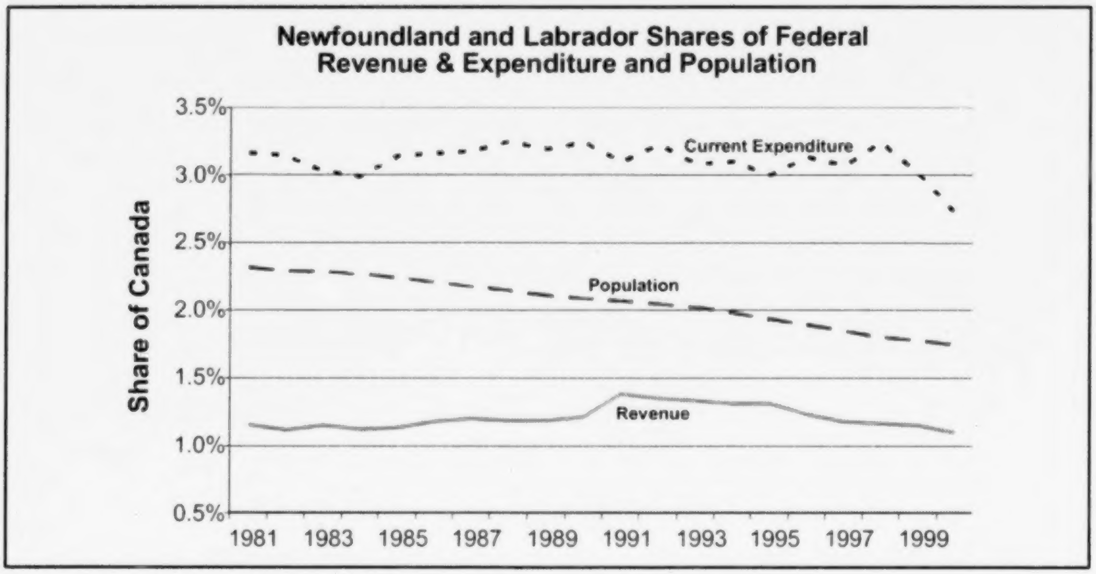
Throughout the federal government's deficit years, Newfoundland and Labrador's contribution to the weak national fiscal position was relatively minor. The bars in Figure 6 show federal government saving in the province of Newfoundland and Labrador and the rest of Canada. The sum of the two is equal to overall federal government saving. Since 1997, the province of Newfoundland and Labrador has reduced the surplus raised from the other provinces. Between 1981 and 1997, the federal deficit in Newfoundland and Labrador accounted for 11% of the cumulative total. Significant, certainly! But hardly the driving force behind Canada's debt woes of the period.

Figure 6



Source: Statistics Canada, Provincial Economic Accounts

Figure 7



Source: Statistics Canada, Provincial Economic Accounts

As seen earlier, federal current spending in Newfoundland and Labrador peaked in 1992. Figure 7 places this decline in perspective by showing that Newfoundland and Labrador has received a shrinking share of federal spending since that time. The declines in 1999 and 2000, the last two years for which data are available, are particularly large; with the province only receiving 2.7% of federal spending in 2000.

Tax Base in Newfoundland and Labrador

Newfoundland and Labrador's contribution to federal revenue as a share of the total has slipped over the last twenty years. But so has the province's ability to generate revenue as its national population share has also shrunk (see Figure 7).

Table 1: Federal Revenue and Key Economic Indicators for Newfoundland and Labrador

Share of Canada unless otherwise noted	Five year averages				
	81-85	86-00	91-95	96-00	2001
Federal Revenue	1.1%	1.2%	1.3%	1.2%	na
Population	2.3%	2.1%	2.0%	1.8%	1.7%
Employment (*)	1.6%	1.6%	1.5%	1.4%	1.4%
Unemployment Rate (**)	17.8	17.2	19.4	17.9	16.1
Personal Income	1.5%	1.5%	1.5%	1.4%	1.3%
Personal Disposable Income	1.6%	1.6%	1.6%	1.4%	1.4%
Gross Domestic Product	1.4%	1.4%	1.4%	1.2%	1.3%
Relative per capita measures:					
Personal Income	67.1%	70.5%	76.2%	76.1%	76.9%
Personal Disposable Income	69.7%	73.8%	79.3%	79.1%	79.5%
Gross Domestic Product	62.7%	64.4%	67.2%	68.5%	73.3%
Other Measures:					
Housing Starts (*)	2.0%	1.5%	1.5%	1.1%	1.1%
Retail Sales	1.7%	1.7%	1.7%	1.6%	1.7%
New Motor Vehicle Sales (*)	1.7%	1.7%	1.6%	1.5%	1.5%
Manufacturing Shipments	0.6%	0.6%	0.4%	0.4%	0.4%
Mineral Production	2.3%	2.3%	2.0%	2.9%	3.3%
Business Bankruptcies (value)	0.4%	0.5%	0.7%	0.8%	0.3%

(*) Canada excludes Yukon, Northwest Territories and Nunavut
(**)Provincial unemployment rate

Source: Statistics Canada, Provincial Economic Accounts

Table 1 shows data for a set of key drivers that help determine federal revenue collected in Newfoundland and Labrador. Steady declines in the province's share of population and employment[6] can be seen over the last 21 years. Stubbornly high rates of unemployment have been responsible for many people's decision to leave the province. Gross domestic product, personal income and personal disposable income shares have all declined over the last two decades.

A declining population leads to declines in employment and measures of income such as gross domestic product; but it is also true that falling income and high unemployment force people to seek new opportunities elsewhere. This is the vicious cycle that has gripped Newfoundland and Labrador for many years.

A Comparison of Federal Spending by Province

Economic circumstances have clearly hindered the province's ability to generate revenue. A reasonable expectation of Confederation was, however, that the federal government would provide comparable services and programs to people in all provinces. Table 2 examines the distribution of federal spending across the country.

Table 2:

Provincial Share's of Federal Spending in 2000

	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Total current expenditure	2.7%	0.8%	4.9%	3.5%	24.0%	32.9%	4.8%	3.8%	7.9%	11.4%
Net current expenditure on goods and services	2.1%	1.0%	7.6%	3.6%	21.5%	40.2%	4.1%	2.2%	6.5%	8.9%
Current transfers to persons	3.0%	0.7%	3.9%	3.4%	25.2%	31.5%	5.1%	4.7%	8.5%	13.1%
Current transfers to business	2.2%	1.4%	7.0%	2.1%	18.5%	32.8%	7.5%	14.5%	6.7%	6.9%
Current transfers to provincial governments	4.7%	1.2%	6.2%	5.4%	27.9%	21.8%	6.8%	4.3%	6.4%	10.6%
Current transfers to local governments	4.0%	0.4%	9.9%	5.1%	16.8%	38.5%	5.5%	0.7%	6.2%	11.7%
Acquisition of non-financial capital	2.2%	1.0%	4.5%	2.5%	20.9%	48.6%	3.1%	2.0%	4.4%	8.8%
Investment in fixed capital and inventories	2.2%	1.0%	4.5%	2.5%	20.9%	48.6%	3.1%	2.0%	4.4%	8.8%

Change in Provincial Share's of Federal Spending: 1990-2000

	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
Total current expenditure	-0.5	0.0	-0.2	-0.3	-0.3	1.2	0.1	-0.4	0.0	1.0
Net current expenditure on goods and services	-0.2	0.2	-0.9	-0.1	0.8	3.5	-0.1	-0.6	-0.5	-0.4
Current transfers to persons	-0.6	-0.1	-0.2	-0.4	-1.8	0.4	0.3	0.4	1.0	0.6
Current transfers to business	-2.2	-0.4	2.3	-1.1	0.8	6.1	0.6	-0.8	-6.4	0.6
Current transfers to provincial governments	-1.0	0.0	0.0	-0.4	0.9	-0.9	0.4	-1.3	-1.1	2.4
Current transfers to local governments	0.3	-0.1	0.7	0.3	-3.4	-1.0	0.3	0.1	1.0	1.9
Acquisition of non-financial capital	-1.6	0.5	-1.5	-0.3	4.5	6.3	-0.8	-0.5	-1.2	-2.0
Investment in fixed capital and inventories	-1.6	0.5	-1.5	-0.3	4.5	6.3	-0.8	-0.5	-1.2	-2.0

Source: Statistics Canada, Provincial Economic Accounts

Federal current spending[7] in Newfoundland and Labrador ranks 9th out of the 10 provinces at 2.7% of the total. Not surprisingly, more populous provinces receive larger shares of federal spending: over three quarters of all federal spending is in the provinces of Ontario, Quebec, British Columbia and Alberta.

Looking at federal spending in greater detail; Newfoundland and Labrador ranks 9th for the major expenditure categories of spending on goods and services and transfers to persons. Newfoundland and Labrador ranks 8th; ahead of Saskatchewan and Prince Edward Island, for the remaining categories of federal spending: current federal transfers to provincial governments, local governments and businesses and acquisition of non-financial capital[2].

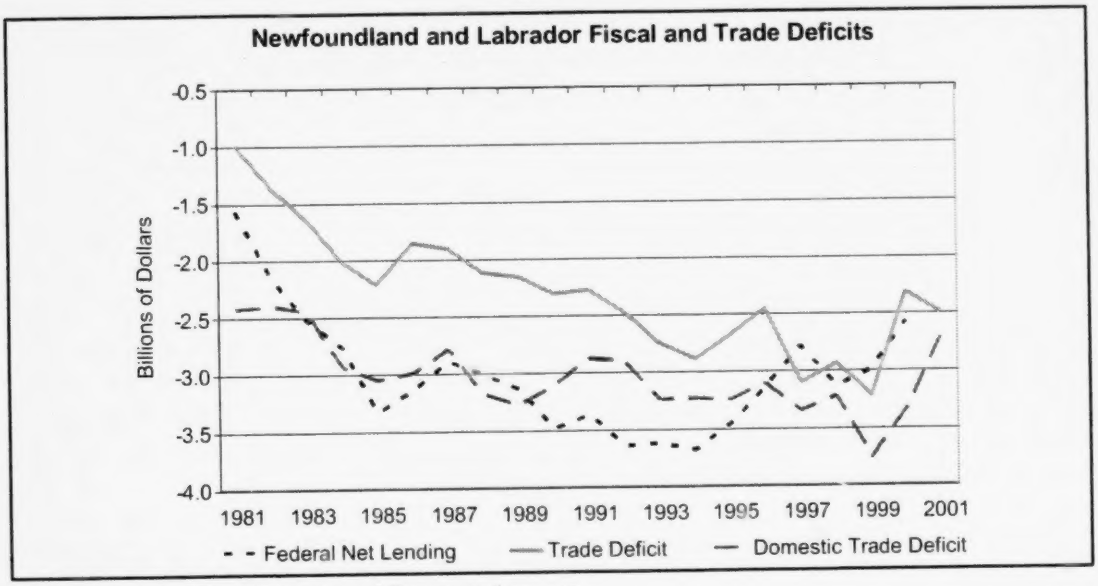
Over the last decade, federal spending in Newfoundland and Labrador as a share of the total has fallen 0.5% — the largest decline of any province. The province now receives a significantly smaller share of transfers to business and public investment than it did in 1990. Only local governments in the province receive a larger share of federal funds than they did in 1990.

Looking across the country, only Ontario and British Columbia have significantly increased their share of federal spending over the last decade. Ontario now receives nearly half of all public investment dollars spent by the federal government. It has also benefited from a rise in transfers to business and spending on current goods and services. Following a decade of economic turmoil, British Columbia now receives a larger share of federal transfers to provincial and local governments. The government of the province of Quebec at $8.8 billion in 2000 continues to receive more money in transfers than any other provincial government.

Federal Fiscal Benefits to Newfoundland and Labrador

It is important to recognize that activity in one part of the economy is not independent of activity in other parts. Figure 8 looks at the relationship between the federal fiscal deficit in Newfoundland and Labrador and the province's trade deficits. The size and trends of these deficits over the last twenty years are very similar. This relationship is no accident and is a consequence of the fact that investment must equal savings plus net borrowing. Balance of payments accounting tells us that any economy that runs a trade deficit must find the funds to finance that deficit. Without its own currency and with relatively low levels of domestic saving, Newfoundland and Labrador must rely on inflows of public or private funds. Figure 8 indicates that the trade deficit is principally financed with federal net spending[9] in the province.

Figure 8

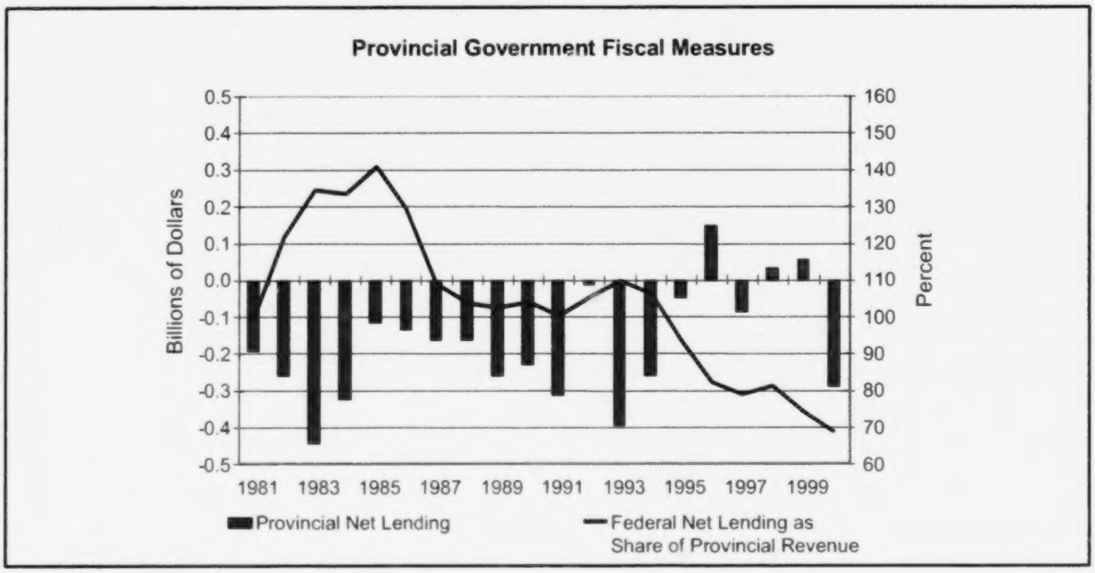


Source: Statistics Canada, Provincial Economic Accounts

The preceding analysis shows that the benefit to Newfoundland and Labrador of federal government net inflows of revenue has fallen over the last few years. The line in Figure 9 shows how important federal net spending in Newfoundland and Labrador is relative to provincial government revenue. In the mid-1980s, federal net spending was as much as 140% of provincial government revenue from all sources. This ratio has fallen sharply since 1994, to the point that federal net spending was equal to less than 70% of provincial government revenue in 2000. This decline occurred despite federal government spending on programs such as TAGS to help compensate for the closure of the fishery in 1993. Although it can be argued that the TAGS program did not truly constitute a benefit to the province since the closure of the fishery was a significant loss to the province. However, without this spending, the decline in federal spending in the second half of the 1990s would have been even more precipitous.

The bars in Figure 9 summarize the provincial government's fiscal position. The provincial government ended its string of deficits in 1996 but, with the economic slowdown in 2000 is expected to remain to remain in a deficit position for the next few years.

Figure 9



Source: Statistics Canada, Provincial Economic Accounts

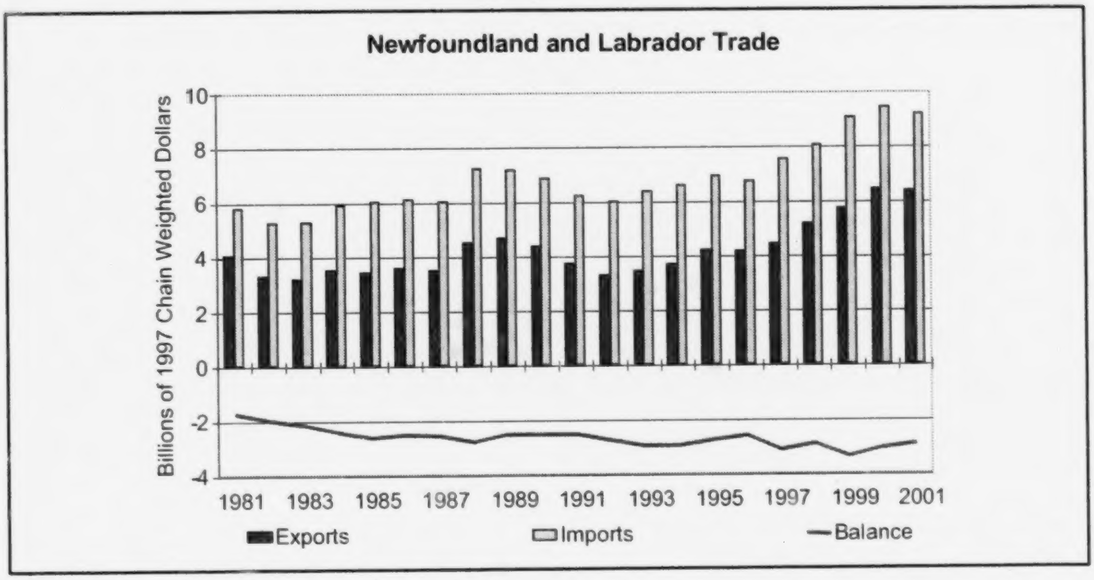
In summary, the federal government's net spending in the province has not been a major factor in the overall national fiscal position. Newfoundland and Labrador's size meant that more populous provinces receive substantially larger sums of federal money and have a larger impact on the federal governments overall fiscal position. Federal spending in Newfoundland and Labrador has declined over the last few years. In fact, the province bore the largest share of the federal government's expenditure restraint of the last decade.

Trade Profile

Newfoundland and Labrador's successful European settlement resulted from profitable trading relationships. Whether it was fish, iron ore, oil or gas, Newfoundland and Labrador have offered their trading partners abundant supplies of these resources in return for all the other products commensurate with a wealthy economy.

Dramatic shifts in the natural resources available to the province over its history continue to fundamentally alter the province's trading relationships. Newfoundland and Labrador has been running a trade deficit of about $3 billion (chain weighted 1997 dollars) since 1993 (Figure 10). This means that the province buys more goods and services from the rest of the world, including the rest of Canada, than it sells. Strong economic growth over the last few years, however, means that this deficit has been shrinking in relation to the overall economy (see Figure 13).

Figure 10

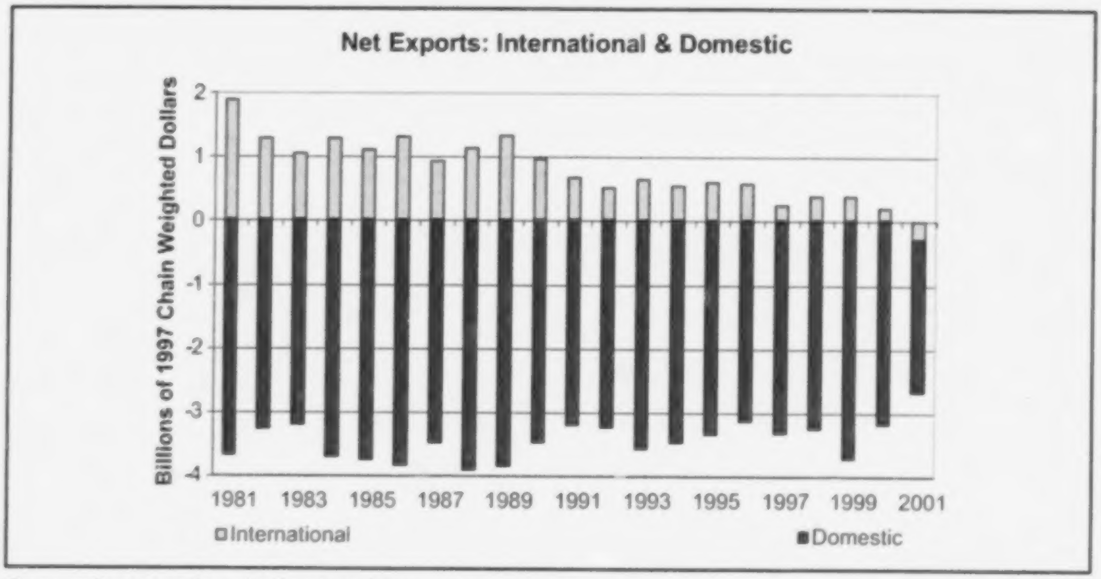


Source: Statistics Canada, Provincial Economic Accounts

In real terms, both exports and imports grew at a very rapid pace between 1997 and 2000 (11.4% and 8.8% a year respectively) after more than a decade of disappointing performance. Global events in 2001 had a clear impact on Newfoundland and Labrador as trade growth stalled.

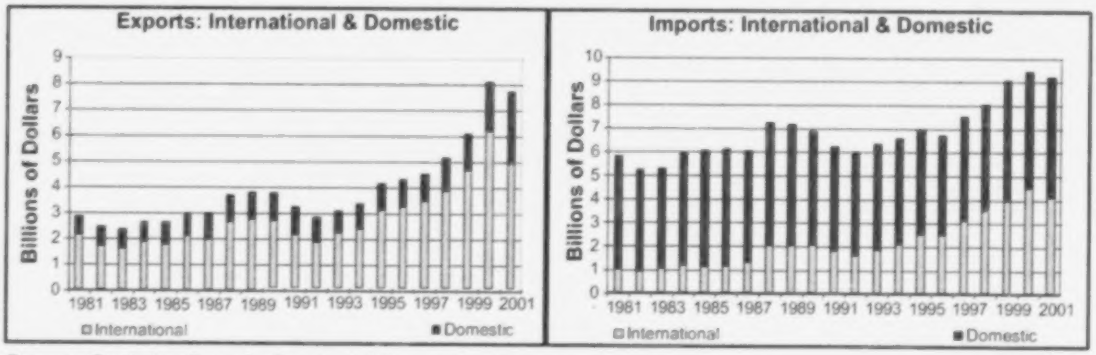
Figure 11 shows that the province has traditionally run a trade surplus with other countries. This surplus has steadily declined over the last two decades and registered a small deficit in 2001. Newfoundland and Labrador's large trade deficit with the other provinces is the reason why the province has such a large and persistent trade deficit. The last two years have, however, seen a fairly sharp improvement in the province's trade balance with the rest of the country.

Figure 11



Source: Statistics Canada, Provincial Economic Accounts

Figure 12

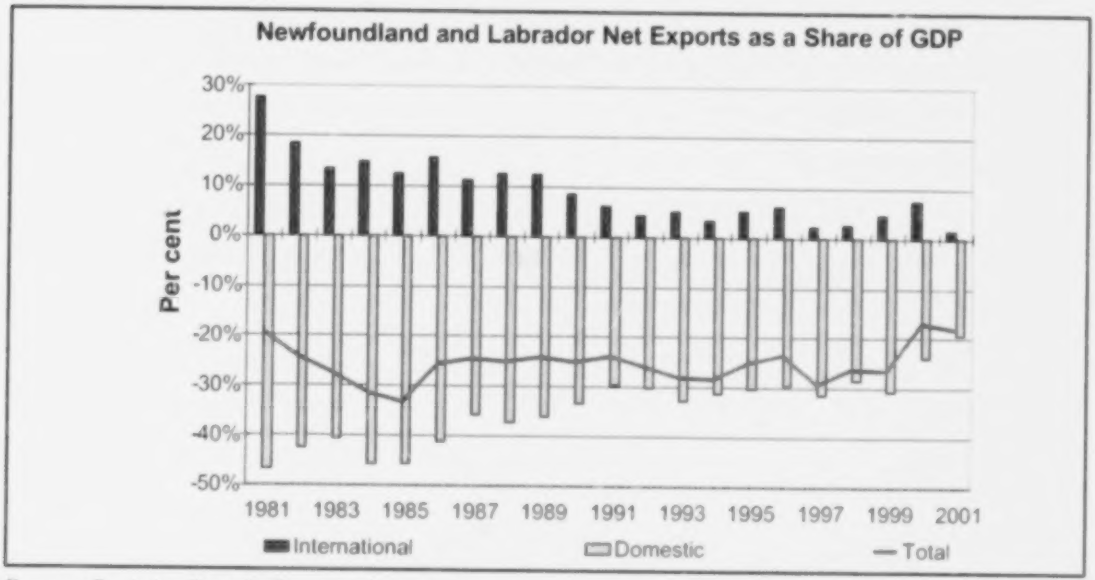


Source: Statistics Canada, Provincial Economic Accounts

Figure 12[4] shows that Newfoundland and Labrador's exports to the rest of the world are generally between 70% and 75% of its total exports. This ratio fell sharply in 2001 as exports to the rest of Canada (domestic) rose while exports to the rest of the world fell. The pattern for import flows is, however, quite different. International imports represented only 18% of total imports in 1981 but have risen steadily as a share of the total to 45% in 2001. The shift in import origin is clearly driving the decline in Newfoundland and Labrador's international trade balance.

Figure 13 shows that improvements in the domestic trade deficit as a share of GDP over the last twenty years have been largely offset by similar declines in the international trade surplus. The overall deficit at 18% in 2001 is still large, but better than it was in 1997. Improvements in this measure can be expected to continue over the next few years as economic growth in Newfoundland and Labrador is expected to be strong[5].

Figure 13



Newfoundland and Labrador Net Exports as a Share of GDP

Source: Statistics Canada, Provincial Economic Accounts

The next section of this chapter examines the degree to which Newfoundland and Labrador is still a vibrant trading economy; what it buys and sells and to whom. It will also examine some of the factors behind Newfoundland and Labrador's dwindling international trade balance and the recent improvement in its interprovincial trade balance and whether these trends are likely to continue.

Newfoundland and Labrador's Domestic Trade Partners

Canada's income is dependent upon its ability to trade. Table 3 examines the importance of trade, at the provincial level, across the country measured relative to provincial GDP in 2001. Newfoundland and Labrador exports significantly less of its GDP than most of the other provinces: only British Columbia, Nova Scotia and Prince Edward Island export less. Even considering just international exports, Newfoundland and Labrador's strength, the province's ranking only rises by one place with Manitoba exporting less (as a share of GDP) to the rest of the world. Somewhat surprisingly, Newfoundland and Labrador's domestic exports are higher as a share of GDP than provinces such as Ontario and Quebec.

Table 3: Provincial Trade Measures as Shares of GDP in 2001

	NL	**PE**	**NS**	**NB**	**PQ**	**ON**	**MB**	**SK**	**AB**	**BC**
Exports of goods and services	55.7%	55.7%	50.1%	76.1%	60.4%	**69.3%**	63.1%	68.7%	63.7%	46.7%
Exports to other countries	35.7%	29.8%	29.4%	42.9%	41.0%	**50.8%**	31.2%	42.5%	41.4%	32.5%
Exports to other provinces	20.0%	25.9%	20.7%	**33.2%**	19.4%	18.5%	31.9%	26.2%	22.3%	14.2%
Imports of goods and services	73.9%	72.7%	70.9%	**86.3%**	56.6%	59.6%	64.6%	63.5%	49.8%	50.7%
Imports from other countries	34.3%	20.5%	36.0%	45.4%	37.1%	**46.5%**	29.9%	26.3%	27.7%	29.4%
Imports from other provinces	39.6%	**52.2%**	34.9%	40.8%	19.5%	13.1%	34.8%	37.3%	22.1%	21.3%
Net exports of goods and services	-18.1%	-17.1%	-20.8%	-10.1%	3.8%	9.6%	-1.5%	5.2%	**13.9%**	-4.0%
Net exports to other countries	1.4%	9.3%	-6.5%	-2.5%	3.9%	4.2%	1.4%	16.3%	**13.7%**	3.1%
Net exports to other provinces	-19.5%	-26.4%	-14.2%	-7.6%	-0.1%	**5.4%**	-2.9%	-11.0%	0.2%	-7.1%

Source: Statistics Canada, Provincial Economic Accounts

Newfoundland and Labrador's reliance upon imports is, however, second only to New Brunswick. The province's strong demand for imports from the rest of the country is the reason for this as the province is only moderately reliant upon international imports[1]. As a result Newfoundland and Labrador has the second worst trade deficit as a share of GDP of all the provinces: only Nova Scotia's deficit is worse.

Table 4: Provincial Trade Measures: Change in Shares of GDP 1981-2001

	NL	**PE**	**NS**	**NB**	**PQ**	**ON**	**MB**	**SK**	**AB**	**BC**
Exports of goods and services	-0.9%	-0.8%	2.6%	2.5%	9.0%	10.4%	11.9%	12.9%	4.2%	6.7%
Exports to other countries	-6.9%	16.9%	9.7%	7.4%	16.9%	21.7%	12.3%	8.9%	16.3%	5.9%
Exports to other provinces	6.0%	-17.7%	-7.1%	-4.9%	-7.9%	-11.3%	-0.4%	4.0%	-12.1%	0.8%
Imports of goods and services	-1.9%	-8.5%	-17.1%	-12.4%	2.9%	7.3%	11.6%	5.4%	1.9%	6.9%
Imports from other countries	19.4%	6.4%	1.8%	0.1%	9.9%	14.3%	11.8%	9.8%	9.8%	10.4%
Imports from other provinces	-21.4%	-15.0%	-18.9%	-12.5%	-7.0%	-7.0%	-0.2%	-4.4%	-7.9%	-3.5%
Net exports of goods and services	1.1%	7.8%	19.7%	14.9%	6.1%	3.1%	0.3%	7.5%	2.3%	-0.3%
Net exports to other countries	-26.3%	10.5%	7.9%	7.3%	7.0%	7.4%	0.4%	-0.9%	6.5%	-4.5%
Net exports to other provinces	27.4%	-2.7%	11.9%	7.6%	-0.9%	-4.3%	-0.2%	8.4%	-4.2%	4.2%

Source: Statistics Canada, Provincial Economic Accounts

Table 4 shows that Newfoundland and Labrador's overall trade orientation – exports, imports and trade balance as shares of GDP – has changed only marginally over the last two decades. All other provinces, except Prince Edward Island, have seen a significant increase in exports as a share of their economies. Imports have generally risen as well, reflecting the impacts of globalization through GATT, the FTA and NAFTA. Newfoundland and Labrador missed this increase in trade, although the increase in exports and imports in the last few years indicates that the province may be catching up.

As already seen, Newfoundland and Labrador has a large trade deficit with the rest of Canada. Table 5 shows that Newfoundland and Labrador ran a trade deficit with every other province in the country in 1999. The largest deficit was with Ontario followed by Quebec while the deficit with the Maritime Provinces was over $0.6 billion.

Table 6 shows the distribution of Newfoundland and Labrador's exports and imports to/from the other provinces. Ontario and Quebec buy the majority of Newfoundland and Labrador's exports – although this share has fallen since 1992 while the share purchased by the Maritime Provinces has risen. Likewise, the majority of Newfoundland and Labrador's imports come from Ontario and Quebec. The share of imports from the Maritime Provinces has fallen slightly over the last decade while rising in both Central and Western Canada.

Table 5: Newfoundland and Labrador Interprovincial Trade in 1999

Millions of Dollars	Exports	Imports	Net
Prince Edward Island	29	54	-25
Nova Scotia	220	536	-317
New Brunswick	114	383	-268
Quebec	445	1217	-773
Ontario	387	2440	-2053
Manitoba	20	47	-27
Saskatchewan	17	30	-12
Alberta	42	232	-190
British Columbia	47	106	-59

Source: Statistics Canada, Input Output Division; The Centre for Spatial Economics

Table 6: Newfoundland and Labrador Interprovincial Trade Shares

	Exports			Imports		
	1992	1995	1999	1992	1995	1999
Prince Edward Island	1.8	2.8	2.2	1.5	1.2	1.1
Nova Scotia	13.8	18.1	16.5	13.0	11.2	10.6
New Brunswick	7.0	9.9	8.6	7.1	6.8	7.6
Quebec	36.9	29.6	33.5	25.6	24.8	24.1
Ontario	30.1	27.5	29.1	45.8	48.3	48.3
Manitoba	1.1	1.5	1.5	0.9	0.9	0.9
Saskatchewan	1.3	1.4	1.3	0.5	0.8	0.6
Alberta	3.9	4.3	3.2	3.5	3.8	4.6
British Columbia	3.9	4.6	3.5	2.1	2.2	2.1

Source: Statistics Canada, Input Output Division; The Centre for Spatial Economics

Newfoundland and Labrador's International Trade Partners

Newfoundland and Labrador's international trade partners are shown in Table 7. The table shows export and import shares for the province's major markets in 1992 and 2001. The Concentration Ratio[1] measures the degree to which Newfoundland and Labrador's trade to or from a specific country is more or less concentrated than that for the country as a whole and is also reported for 1992 and 2001.

A number of significant changes in the province's export markets have taken place since 1992. Like the rest of the country, the United States has become an even more critical trade partner in the decade after the FTA and NAFTA trade agreements. Other countries buying a larger share of Newfoundland and Labrador's goods include France, Germany and China while markets such as the United Kingdom, Italy and Japan have declined in importance. Of particular note is the degree to which Newfoundland and Labrador's export markets have become more concentrated: 85% of all exports went to the province's top 5 destinations in 2001 – up from 75% back in 1992.

This specialization is reflected in the concentration indices. The index values for eight of Newfoundland and Labrador's top 10 markets are greater than 100. Newfoundland and

Labrador's export share to Germany, for example, is 7.4 times larger in 2001 than Canada's export share to Germany. The exceptions are Canada's top two export destinations: the United States and Japan. Newfoundland and Labrador is somewhat less reliant on the US economy as an export market than is the rest of the country.

Table 7: Newfoundland and Labrador Trade Partners

	Share of Total		**Concentration Ratio**	
	1992	**2001**	**1992**	**2001**
Total Exports				
United States	50.7%	65.6%	66	75
France	1.5%	7.3%	168	1355
Germany	3.6%	5.4%	251	741
United Kingdom	9.5%	3.4%	493	275
Italy	5.1%	3.0%	704	740
China	0.0%	2.7%	1	252
Japan	3.9%	1.3%	85	65
Australia	0.0%	1.3%	6	490
Denmark	1.2%	1.0%	1269	696
Taiwan	0.7%	0.8%	119	316
All Others	23.8%	8.3%		
Imports				
Iraq	0.0%	47.6%	0	18696
United States	20.0%	13.4%	31	21
Saudi Arabia	3.9%	4.7%	1070	2007
Russia	0.0%	4.2%	0	3962
United Kingdom	3.5%	3.6%	127	106
Norway	12.7%	3.4%	1247	330
Faeroe Islands	0.0%	2.5%	0	15951
Estonia	0.0%	2.2%	0	8419
Syria	0.0%	2.2%	0	12207
France	0.8%	1.6%	47	99
All Others	58.9%	14.6%		

Source: Industry Canada, Strategis

Newfoundland and Labrador's international import origins have changed dramatically since 1992. International politics have a major impact on the origin of oil imports. In 1992, Nigeria, Iran, Yemen, Norway, Saudi Arabia, and the Former USSR were among the top 10 import origins but by 2001, Iraq had displaced the imports from many of these countries. Similar to the situation with exports, international import origins have become more concentrated over the last decade: 74% of all imports came from the top 5 countries in 2001 up from 67% in 1992.

Again, the concentration indices for eight of Newfoundland and Labrador's top 10 import origins are greater than 100. Newfoundland and Labrador's imports account for a significant proportion of Canadian imports from these countries. The significant exception is the United States. With only 13% of all imports coming from the United States, Newfoundland and Labrador stands in stark contrast to the rest of the country[1]. In 2001, 64% of Canada's imports came from the US.

The reasons for the international trade relationships described in the preceding section become apparent when examining Newfoundland and Labrador's trade by industry sector[2]. The data in Table 8 shows export and import shares for the province's top ten industry sectors in 1992 and 2001. Similar to the previous table, the Concentration Ratio measures the degree to which

Newfoundland and Labrador's trade in the products of that industry sector is more or less concentrated than that for the country as a whole and is also reported for 1992 and 2001.

Table 8: Newfoundland and Labrador Trade Sectors

	Share of Total		Concentration Ratio	
	1992	2001	1992	2001
Total Exports				
32411 - Petroleum Refineries	24.4%	35.8%	1322	1553
31171 - Seafood Product Preparation and Packaging	25.1%	19.9%	2143	2654
32212 - Paper Mills	36.1%	17.7%	720	508
21221 - Iron Ore Mining	8.7%	14.2%	1760	5995
21111 - Oil and Gas Extraction	0.0%	6.6%	0	63
32111 - Sawmills and Wood Preservation	0.1%	0.9%	3	28
33313 - Mining and Oil and Gas Field Machinery Manufacturing	0.0%	0.5%	2	242
11411 - Fishing	1.4%	0.3%	446	129
21231 - Stone Mining and Quarrying	0.1%	0.3%	346	981
33329 - Other Industrial Machinery Manufacturing	0.2%	0.1%	49	23
All Others	3.8%	3.7%		
Imports				
21111 - Oil and Gas Extraction	26.3%	58.6%	921	1549
32411 - Petroleum Refineries	38.8%	13.0%	4577	1685
31171 - Seafood Product Preparation and Packaging	1.5%	12.2%	317	2534
32519 - Other Basic Organic Chemical Manufacturing	0.0%	4.9%	0	328
33313 - Mining and Oil and Gas Field Machinery Manufacturing	0.1%	1.7%	33	768
33291 - Metal Valve Manufacturing	0.1%	1.5%	23	189
33641 - Aerospace Product and Parts Manufacturing	1.9%	1.1%	78	33
33329 - Other Industrial Machinery Manufacturing	0.9%	0.6%	72	51
33121 - Iron and Steel Pipes and Tubes Manufacturing from Purchased Steel	0.0%	0.5%	9	135
33451 - Navigational, Measuring, Medical and Control Instruments Manufacturing	0.8%	0.5%	43	21
All Others	29.4%	5.4%		

Source: Industry Canada, Strategis

Newfoundland and Labrador's natural resource strengths can be clearly seen in the province's export profile: oil, seafood, forest products, and iron ore. Activity at the Come By Chance refinery accounts for a significant percentage of provincial trade. Nearly 59%, by value, of all imports to the province is crude oil which is refined and, for the most part, exported to the United States (accounting for nearly 36% of all exports). In 2001, the Competition Bureau agreed to modify restrictions which prohibited the sale of Come by Chance refinery products in other Canadian provinces. This decision likely helped fuel the 55% increase in the value of Newfoundland and Labrador's exports to other provinces in 2001.

Imports, other than crude oil, are heavily oriented toward helping Newfoundland and Labrador's export sectors grow. The purchase of various types of machinery and fabricated metal products to help develop the province's oil and gas fields can clearly be seen.

Benefits from Trade

Trends in Newfoundland and Labrador's trade data bear some resemblance to Norway's about 30 years ago[1]. In the mid-1970s, the Norwegian current account registered huge deficits as energy-sector investment rushed in to develop their North Sea oil reserves. These current account deficits rapidly turned around to becomes surpluses in the 1980s as the economy reaped the benefits of its investment. In Newfoundland and Labrador, a rise in imports of machinery and fabricated metal products has contributed to a decline in the trade balance.

The current account balance can be thought of as the difference between saving and investment in an economy. Thus, when the current account balance is in deficit, investment exceeds saving. Looking forward, this investment in the development of the province's major oil projects will continue to support high levels of imports for a few years. The production from these projects will, however, start to generate substantial export revenue and help push the international trade balance back to a solid surplus position. Increased shipments of crude and refined petroleum products to the rest of Canada will continue to narrow the province's trade deficit with the rest of the country. Trade in other commodities, while clearly vital to everyday life, will be swamped in dollar terms by these flows.

The rest of Canada has and continues to benefit from the economic union by exporting goods and services to Newfoundland and Labrador. Companies in Ontario and Quebec have benefited the most from trade with Newfoundland and Labrador. In turn, households in Newfoundland and Labrador have been able to buy a wider variety of goods and services and at a lower cost than would have been possible without the economic union. In contrast, it is only now that Newfoundland and Labrador's exporters are starting to experience rising benefits from the domestic market. For example, a decision supporting free trade in Canada is finally allowing the province to benefit significantly from its investment in the Come by Chance refinery. Its unfettered access to both domestic and international markets means that it can operate at significantly higher levels of capacity than it could before.

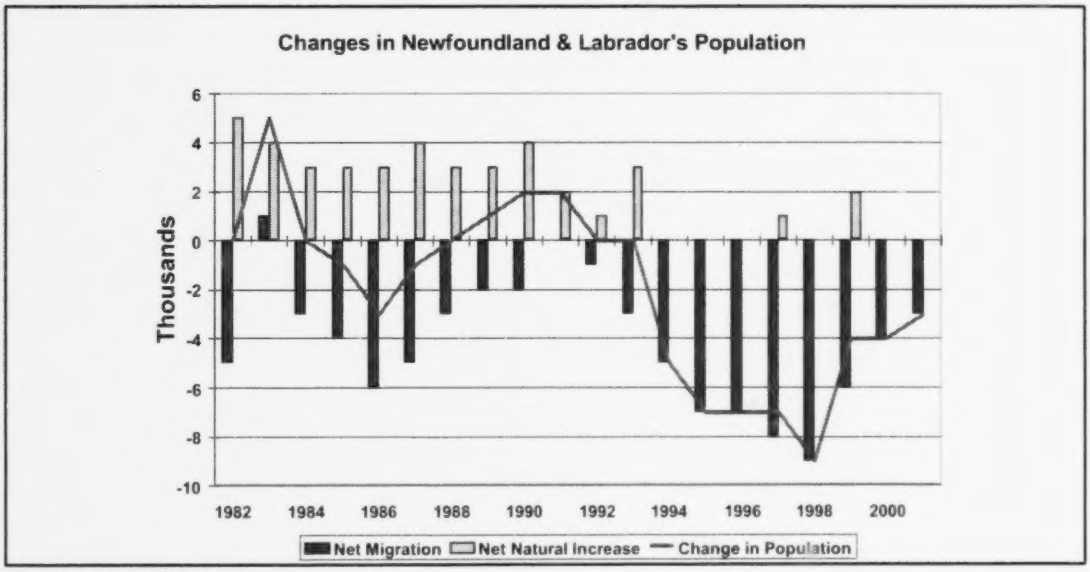
A general improvement in the provincial trade balance can, therefore, be hoped for over the next decade. An improvement in the trade balance would mean that the province would require smaller inflows of capital from public and private sources.

Labour Mobility

A key concern at the time of Confederation was that too many people might choose to migrate from Newfoundland and Labrador to other parts of Canada. The industrial policies of the 1950s were intended to provide people with economic opportunities within the province. High birth rates succeeded in offsetting population losses due to net out-migration up until the early 1990s. The collapse of the fishery provided the catalyst for a wave of migration to other parts of the country. These migrants have made significant contributions to the communities in which they have settled. The loss of these people has, however, been of considerable concern to the government of Newfoundland and Labrador which released a report in April 2002 titled Demographic Change: Newfoundland and Labrador Issues and Implications.

A principal tenet of economic theory is that trade among regions allows each region to specialize in those activities for which it is best fitted by its endowments of resources and other fixed local input factors thus maximizing their economic potential. This specialization of regions is limited, of course, by interregional transfer costs as well as by lack of information, inertia, and the like. But so far as it goes, the effect of freer interregional trade is likely to be in the direction of equalizing not only commodity prices among regions but also wages, incomes, and the rates of return to capital. The reason for this is that a region in which capital is scarce relative to labor can, with interregional trade, specialize in "labor-intensive" lines of production requiring much labor and little capital while importing the products of "capital-intensive" activities from regions better endowed with capital or less well endowed with manpower.

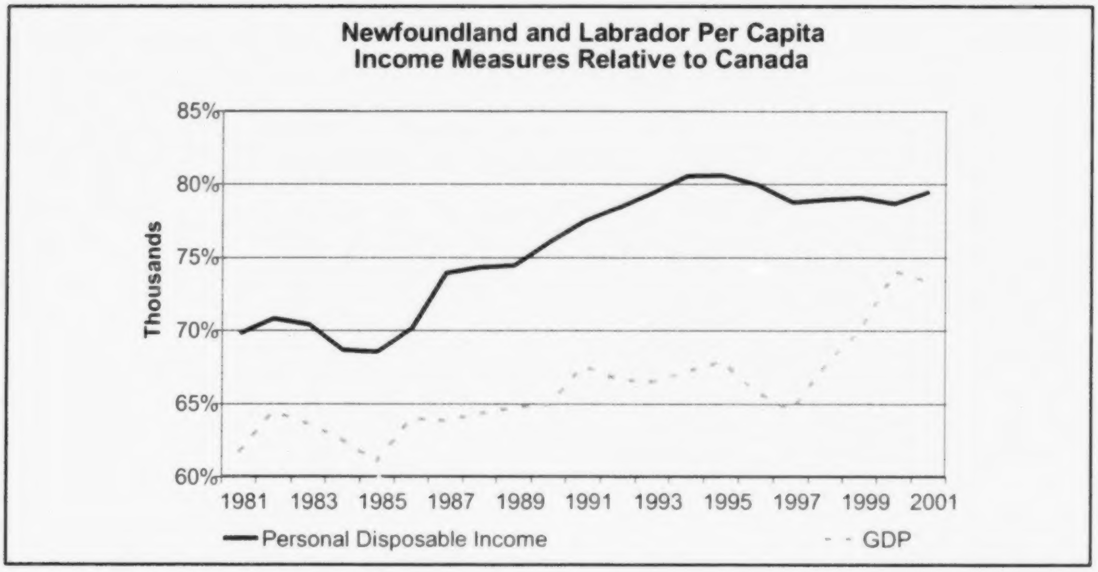
Figure 14



Source: Statistics Canada, Provincial Economic Accounts

There are a variety of factors that influence labor mobility. The rate of return to labor (real wages) is a major determinant; but migration and regional manpower supplies depend also on the handicaps to movement imposed by uncertainty, lack of information, cost of moving, and social distance. Moreover, a person's mobility varies widely according to their age, marital and dependency status, education, skills, and recent migration experience; and migration flows between places depend on such additional factors as previous flows (the beaten-path effect), the size and diversity of labor markets, and the effectiveness of interregional job-information and placement systems. Age is the personal characteristic most markedly related to migration rates, with generally declining rates to the late teens, a sharp peak around age eighteen to twenty, and a decelerating decline to old age with a small peak at retirement time. Migration rates are positively associated with both education and occupational status or skill, at any given ages.

Figure 15



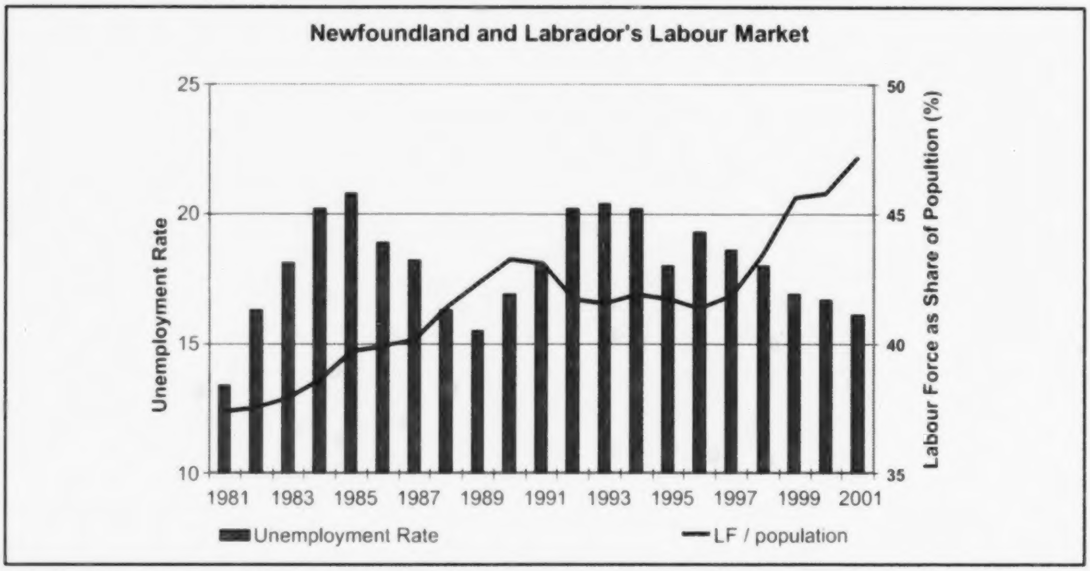
Source: Statistics Canada, Provincial Economic Accounts

The Costs of Labour Mobility

Historically in Newfoundland and Labrador, the impacts of out migration on population growth had been offset by a relatively high level of natural population growth. In the 1990s, however, the continual decline in births since the 1960s, together with the severe economic shocks resulting from the fisheries crisis, public sector restraint and changes in the UI/EI program took their toll. So in 1993-94, following a decade of little or no change in total population, Newfoundland and Labrador entered a period of continuous population decline, precipitated by record high levels of net out-migration and continually declining births (see Figure 14).[2]

Over 70,000 people have left the province to seek new opportunities elsewhere in the world in the last decade. At one level, however, the province's economic performance over the last two decades can be judged a success as all measures of per-capita income for Newfoundland and Labrador have converged towards the national average (see Figure 15). In principal, the out-migration should have helped reduce competition for job openings in the province. The unemployment rate has, however, remained stubbornly above 16% – the highest in the country – as workers that had previously been discouraged from entering the official labour market registered for work. Figure 16 shows a sharp increase in the proportion of the population in the labour force: rising from 41% in 1996 to 47% in 2001 while the unemployment rate fell 3 percent from 19% to 16%.

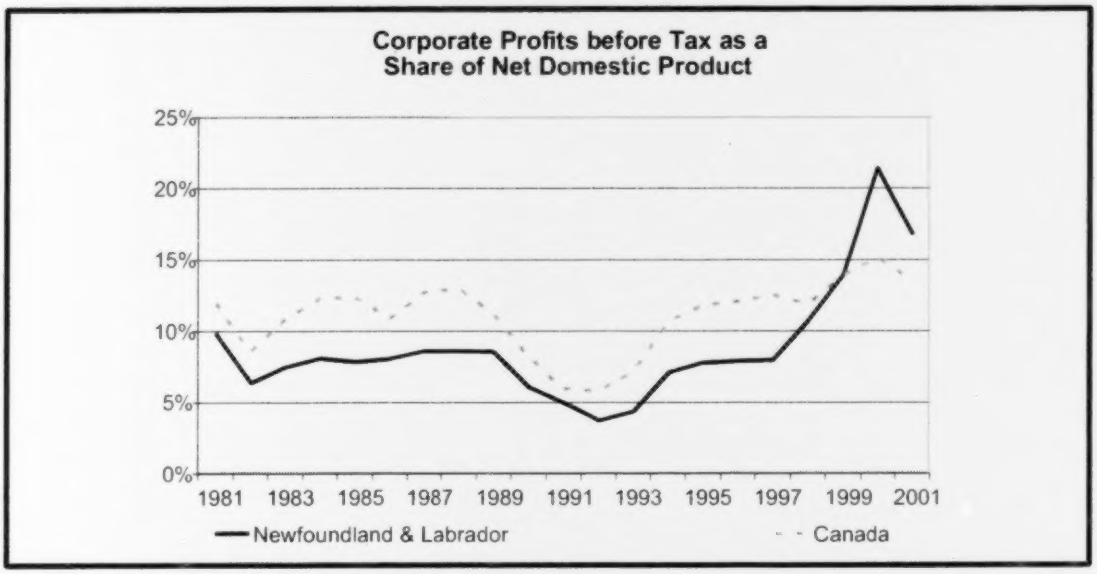
Figure 16


Newfoundland and Labrador's Labour Market

Source: Statistics Canada, Provincial Economic Accounts

The rapid increase in the province's relative GDP per capita from 1997 to 2000 seen in Figure 15 is not matched by a corresponding rise in relative personal disposable income. This is a result of the reduction in personal transfer payments from the federal government (discussed in Chapter 3) and a significant increase in before tax profits for the corporate sector. Figure 17 shows that corporate profits have generally been lower than the national average in Newfoundland and Labrador[3]. Corporate profits as a share of output tend to fall when the economy is weak and rise during a boom. The sharp increase in corporate profits in Newfoundland and Labrador since 1997 is a sign of the importance of the offshore oil patch. Over time the corporate share of income is likely to return to values closer to – but still probably above – those seen throughout the 1980s and 1990s and, barring significant tax increases, personal income in the province will rise.

Figure 17



Source: Statistics Canada, Provincial Economic Accounts

Many argue that the loss of these people has had a profoundly negative effect upon the province. From a purely demographic point of view, the migrants have been young and generally well-educated. This has led to a significant rise in the average age in the province placing a corresponding burden upon the health care system. The more worrisome impact is the loss of local demand for goods and services that would have resulted had those people remained in the province. Although they may have remained unemployed and, therefore, required social assistance or employment insurance payments. Or they may have been significantly underemployed.

The Benefits of Labour Mobility

While the economic losses to Newfoundland and Labrador described above are real and may be significant; many economists would argue that the overall benefit to the country resulting from increased labour mobility is positive. When workers move to either secure employment or to jobs in which they will be more productive, both individual and national incomes will rise. Labour mobility can also help to speed up the adjustment to economic shocks that affect one region more than another.

The Centre for Spatial Economics Canadian Quarterly Model (CQM) was used to study the benefits to Canada from increased labour mobility. A substantial number of people born in Newfoundland and Labrador are now living and working in other provinces in Canada. Imagine that those people had been prevented from moving to seek or take up employment in the rest of the country and had, instead, remained in Newfoundland and Labrador. This would have contributed to labour market shortages in the communities they would have moved to.

Companies in the affected areas would, therefore, have had to bid up the wage rate to attract scarce workers.

The first step in the analysis is to estimate the number of people born in Newfoundland and Labrador and now living in other provinces in Canada. Table 9 shows how this estimate was derived. The 1996 Census found 191,185 people born in Newfoundland and Labrador were living in other provinces. An estimated 32,000 migrants joined them between 1997 and 2002. It was assumed that 1.5% of the total died or left the country to leave a balance of 220,000 people in 2003. It is interesting to note that Newfoundland and Labrador's total population in 2003 is estimated to be just 516,000; therefore, for every 10 residents in Newfoundland and Labrador, there are 4 people born in the province that are now living elsewhere in Canada.

Table 9: Labour Mobility Economic Impact Assumptions

NL Demographics	Population	Natural Change	Total Net Migration	Domestic Net Migration
1996	560584	1892	-9262	-7436
1997	547826	1361	-14119	-11919
1998	534199	905	-14532	-12332
1999	527943	635	-6891	-4691
2000	524231	407	-4119	-1919
2001	521200	148	-3179	-979
2002	518069	65	-2522	-325
NL Living in RoC				
1996 Census	191185			
Plus sum from 97-02	32165			
Less Loss of 1.5%	3350			
NL Living in RoC	220000			
Source Population Impact	176000			

Source: The Centre for Spatial Economics

The analysis further assumed that 20%[1] of these people are not eligible to enter the labour force because they are too young leaving an impact of 176,000 people on the source population[2]. Of course, not all these people may be in the labour force: some could be students, retired, or otherwise engaged outside of the labour force. Based upon the national participation rate, the number of former Newfoundland and Labrador residents active in the labour force in the rest of Canada is 95,000. A reduction in the labour force of 95,000 contributes to local labour market shortages and drives up the wage rate by 0.6%[3].

The national economic impacts in Table 10 were generated by solving the CQM based upon an initial increase in the wage rate of 0.6% – the amount it would rise based upon the estimated labour shortage. The impacts were generated as the discounted present value over the (8 year) medium term period in which the economy adjusts to the shock and are reported as the average annual impact[4]. They can be interpreted as the annual recurring cost to the Canadian economy over the medium term of higher labour costs induced, in this instance, by a shortage of labour in some markets.

An increase in labour costs raises the costs of production for domestic firms and results in a loss of competitiveness. This leads to a reduction in export sales and higher imports as foreign goods and services become cheaper relative to Canadian goods and services. The increase in labour costs also causes firms to substitute capital for labour. The result is a decline in employment and output with higher prices and wages. Table 10 shows that output falls by

$2 billion a year, employment by 41,000 while prices are 0.3% higher and wages are 0.4% higher.

Table 10:

Impact of a Reduction in Labour Mobility on the Canadian Economy	
Macroeconomic Impact	
GDP ($ millions)	-2004
GDP Deflator (%)	0.3%
CPI Inflation (%)	0.3%
Wage Rate (%)	0.4%
C$/US$ Exchange Rate (%)	0.2%
GoC 3 month T-Bill Yields	0.00
GoC 10 year Bond Yields	0.00
Labour Force Participation Rate	-0.04
Labour Market Impact	
Labour Force ('000s)	-12
Employment ('000s)	-41
Unemployment Rate (%)	0.2
Federal Government Fiscal Impact	
Revenue ($ millions)	-56
Expenditure ($ millions)	1038
Net Lending ($ millions)	-1093

Source: The Centre for Spatial Economics

Over time, adjustments to the exchange rate, interest rates and the labour force participation rate allow the economy to return to its trend output and employment path but at a higher price level. The exchange rate depreciates to help offset higher prices in Canada – raising exports and lowering imports. The labour force participation rate falls as weaker employment prospects lead to more discouraged workers. Interest rates show no change because their initial rise, to combat higher prices, is offset by a subsequent decline consistent with the weaker domestic economy. The real interest rate – the nominal rate less the rate of inflation – is lower throughout the period which is also consistent with a weaker economy. Throughout this period of adjustment, however, there have been real costs associated with projects that had to be cancelled or scaled back because of a lack of workers.

The weaker economy also has an impact on the federal government's fiscal position. Federal government revenue falls only marginally as the effect of the weaker economy on the tax base is largely offset by the increase in prices. Direct taxes from persons and corporations fall by about $190 million a year while indirect taxes[1] rise $96 million a year. Federal spending rises as a result of higher prices and higher unemployment. Federal transfers to persons rise by $480 million a year. The decrease in the federal surplus of about $1 billion a year also means the government has to pay interest on a higher stock of debt so debt interest payments rise by about $280 million a year.

While these impacts are small relative to the overall economy, they represent a significant share of current federal net lending to the province of Newfoundland and Labrador. Recall that federal net lending in Newfoundland and Labrador in 2000 was $2.6 billion so about 40% of the deficit could be "offset" by the contribution made by these non-residents. The benefit to Canada of a highly mobile labour force contributing to the efficiency of local labour markets is clear. Economic theory can only reassure us that the country as a whole will benefit from labour mobility – it does not follow that all regions make gains. As discussed in the previous section, it remains less certain whether the region losing population gains or loses. The loss of productive workers and their associated demand depresses economic activity – but it does reduce competition for jobs for those that remain.

Hydro-Electric Power

The development of Newfoundland and Labrador's hydro-electric energy resource at Churchill Falls in Labrador was an engineering success. Today, it is a powerful symbol to Newfoundland and Labrador of what is wrong with the economic union. The deals that were required to get the project constructed remind one of the cowboy who, when asked why he sat in the cactus bush replied, "It seemed like a good idea at the time". Churchill Falls (Labrador) Corporation Limited (CF(L)Co) had to have a long term contract for its electricity before construction could begin. The negotiations resulted in a 65 year contract[2] with declining prices for the electricity.

While the energy shocks and inflation of the 1970s and 1980s were unanticipated by all parties, all the windfall gains from higher energy prices have accrued to Hydro Quebec. The Government of Newfoundland and Labrador has made various attempts with both the federal government and the Government of Quebec to renegotiate the power deal and to establish conditions conducive to further development of the resource. All efforts so far have met with failure.

Quebec's Gain

The benefits from this resource have helped Quebec develop a powerful manufacturing sector based on a cheap and plentiful supply of electricity. Quebec's manufacturing sector uses more electricity per dollar of output than any other jurisdiction in Canada. Quebec has also been able to generate substantial income from export sales of surplus electricity purchased for a fraction of its worth and sold at prevailing market prices. The income generated by this sector has helped the province economically and, therefore, reduced the federal equalization payment it may have received. Newfoundland and Labrador has certainly gained export sales to Quebec – but at a value significantly less than if the electricity had been sold at prevailing market prices.

Newfoundland and Labrador's Pain

It is not the purpose of this study to say whether the Churchill Falls contract is fair or not. It is, however, instructive to examine the potential impact on Newfoundland and Labrador's economy of a renegotiated contract at the start of the 1990s. The Newfoundland and Labrador Department of Finance used the Newfoundland and Labrador Econometric Model (NALEM) and its equalization model to determine what the impact on the provincial economy might have been if the electricity had been sold at higher prices[3] over the period 1991 to 2001. Since there is no way of knowing exactly what price the electricity could have been sold for – that would have been influenced by a number of factors such as demand conditions, transmission costs, and the negotiation process – the impacts of receiving an additional $20, $30 or $40 per megawatt hour more than were actually paid under the 1969 contract were studied[4]. The increase in price was not assumed to have an impact on the demand for electricity from Churchill Falls because Hydro Quebec could have exported any surplus to the United States.

Table 11: Assumptions for Extra Revenue From Churchill Falls Electricity Exports

		Increase in CFLCo Revenue ($millions)			Increase in NL Government Revenue Net of Equalization Clawback ($ millions)		
	Electricity Exports MWh	Case 1: +$20/MWh	Case 2: +$30/MWh	Case 3: +$40/MWh	Case 1: +$20/MWh	Case 2: +$30/MWh	Case 3: +$40/MWh
2001	28,159	563.2	844.8	1,126.4	315.0	472.5	630.0
2000	30,268	605.4	908.0	1,210.7	338.6	507.9	677.2
1999	29,674	593.5	890.2	1,187.0	331.9	497.9	663.9
1998	32,793	655.9	983.8	1,311.7	366.8	550.2	733.6
1997	30,301	606.0	909.0	1,212.0	338.9	508.4	677.9
1996	25,748	515.0	772.4	1,029.9	288.0	432.0	576.0
1995	26,693	533.9	800.8	1,067.7	298.6	447.9	597.2
1994	27,413	548.3	822.4	1,096.5	306.6	460.0	613.3
1993	29,909	598.2	897.3	1,196.4	334.6	501.8	669.1
1992	25,951	519.0	778.5	1,038.0	290.3	435.4	580.6
1991	26,330	526.6	789.9	1,053.2	294.5	441.8	589.1

Source: NL Hydro Annual Reports; NL Department of Finance

CF(L)Co's export volumes from 1991 through 2001 were multiplied by the three alternate price increases to generate the extra revenue that CF(L)Co could have earned. It was assumed that the extra revenue received by CF(L)Co would be paid out to the shareholders. In 2000, 65.8% of CF(L)Co was owned by Newfoundland Hydro with the remaining 34.2% owned by Hydro Quebec. Therefore, while all the extra payment to CF(L)Co would be counted in the province's GDP, only 65.8% would accrue to provincial authorities. Any increase in provincial revenue would, however, be offset by a decline in federal government equalization payments. The equalization clawback rate on extra revenue to the provincial government was assumed to be 15%. Table 11 shows the impact on CF(L)Co revenue and the government of Newfoundland and Labrador for each of the three price assumptions based upon actual exports to Hydro Quebec from 1991 to 2001.

Provincial exports would have risen and so would provincial government revenues. As discussed, the increase in provincial government revenue would, in part, be offset by a decline in federal equalization payments. The additional provincial government revenue, net of equalization, was then spent: 50% on additional expenditures and the remaining 50% on lowering provincial personal income taxes. The end result is that the provincial government surplus (or deficit) does not change from its historical values since government spending increases and personal provincial income tax cuts were used to dissipate the increase in government revenue.

Table 12 highlights the economic impact based on the assumption that CF(L)Co had exported its electricity at an additional $30 per MWh (Case 2). The table shows the impact in terms of both the absolute and the percentage change in each measure that should be added to the actual historical values. For example, provincial GDP would have been $1.2 billion (constant 1997 dollars) higher or 11% above what it was over the period 1991-2001. The increase in economic activity would have raised prices in the economy. The CPI would rise by only a small amount because many consumer prices are set nationally. The GDP deflator would rise by more because Newfoundland and Labrador is receiving more money for selling the same amount of electricity – in other words, a price increase. The outcome is positive for households as disposable income rises by more than total personal income because of the personal income tax cuts. Employment and the labour force both rise – while the unemployment rate falls – and the positive economic environment encourages more people to remain in the province.

Provincial government revenues rise as a direct result of the increase in revenue from CF(L)Co and from the increase in economic activity. The provincial government is in the enviable position of being able to increase spending while at the same time cutting tax rates. The lower tax rates offset some, but not all, of the increase in government revenue. By assumption, the provincial deficit is unchanged from its historical values through the 1990s although at a higher level of both provincial government revenue and expenditures[1].

Table 12: Economic Impacts of Additional Churchill Falls Electricity Revenue

Case 2: Extra $30 per MWh of Electricity Exports

	Average 1991-2001	
	Dollar Impact	**% Impact**
Macroeconomic Impact		
Real GDP (1997$ Millions)	1182	10.7
GDP Deflator (1997=100)		0.2
Consumer Price Index (1997=100)		0.0
Real Personal Income (1997$ Millions)	305	2.9
Real Disposable Income (1997$ Millions)	483	5.6
Real Retail Sales (1997$ Millions)	148	3.7
Housing Starts	77	4.1
Labour Market Impact		
Employment ('000s)	6	3.0
Labour Force ('000s)	5	1.9
Unemployment Rate (%)		-0.9
Population ('000s)	8	1.4
Provincial Government Impact		
Current Expenditures ($millions)	219	5.9
Investment ($millions)	15	6.9
Total Expenditures / Revenues ($millions)	234	6.0
Net Lending ($millions)	0	0.0

Source: NL Department of Finance

The economic impacts for Case 1 and 3 were smaller and larger respectively than for Case 2. The increase in real provincial GDP (1997 dollars) was estimated to be between $790 million for Case 1 and $1,600 million a year for Case 3 in the 1990s. This represents between $1,500 and $3,000 a person each year and – even at the lower end of the range – would be enough to pull Newfoundland and Labrador ahead of both Nova Scotia and New Brunswick in terms of per capita GDP.

The increase in provincial government revenue would be between $300 and $600 million a year and the decrease in federal equalization payments between $50 and $100 million a year. The provincial government tax cuts and spending increases generate additional activity in the province which is taxed by the federal government resulting in an increase in federal revenue of between $35 and $75 million a year. Federal net spending in the province, therefore, would have fallen by between $100 and $200 million a year[1].

A Brighter Future?

The dispute over Churchill Falls has national significance. It has contributed to tensions between all the governments involved. Newfoundland and Labrador's foregone revenue will total billions of dollars before the contract expires in 2041. The benefits to Quebec's economy have been equally large – supporting the development of a powerful manufacturing sector and providing windfall gains on their electricity exports. The situation has, to date, stalled the development of hydro-electric resources that would reduce Canada's dependence on fossil fuels and help us meet our greenhouse gas emissions targets. The potential agreement on the Gull Island hydro-electric project is, however, an indication that future development may be possible with equitable economic benefits for all parties.

Natural Resources

The earliest settlers were drawn to Newfoundland and Labrador for its abundant natural resources. However, since Confederation many efforts to capitalize on the province's resources have at best been disappointing and, in the case of the fishery, an outright catastrophe.

Chapter 4, Trade Profile, provided figures on the importance of Newfoundland and Labrador's natural resources to the province's exports. Exports of raw and processed materials dominate the list of the province's top exports. Table 13 shows the growth and distribution of the province's GDP by sector. The oil and gas mining sector representing 6.9% of provincial GDP between 1998 and 2000 is now the dominant natural resource sector followed by other mining at 4.0%. The fishing and forestry sectors are considerably smaller at 1.9% and 0.9% respectively. In total, these resource sectors accounted for 13.7% of provincial GDP between 1998 and 2000.

Table 13: Real GDP by Major Industrial Sector in Newfoundland, 1984 to 2000

	Average GDP 84-86 ($97 million)	Average GDP 98-00 ($97 million)	Average Annual Percent Change	Absolute Change	Share of Average GDP 98-00	Share of Absolute Change
All industries total	8,641.8	10,718.0	1.7	2,076.2	100.0	100.0
Agriculture and related	39.7	51.8	2.2	12.1	0.5	0.6
Fishing, hunting and trapping	283.3	204.2	-2.0	-79.1	1.9	-3.8
Logging and forestry	110.2	93.7	-1.1	-16.5	0.9	-0.8
Oil and gas mining	0.0	738.7	n/a	738.7	6.9	35.6
Other mining	464.3	431.2	-0.5	-33.1	4.0	-1.6
Manufacturing	716.9	734.4	0.2	17.5	6.9	0.8
All other industries total	7,027.4	8,463.9	1.5	1,436.5	79.0	69.2

Source: Statistics Canada and The Centre for Spatial Economics

Change, however, has been the hallmark of the natural resource sector in the province. The fishery helped define Newfoundland for generations but output from this sector has fallen nearly 30% over the last two decades. The management of the fishery was ceded to the federal government as one of the articles of Confederation. This was, by any standard, a significant gift. Although the reasons for the failure of the fishery are many, it is hard to refute that it is a resource that the federal government failed and continues to fail at managing. And when the federal government has tried to manage the resource through quota allocations, it has succeeded in creating bitter inter-provincial rivalries. A recent example is the decision to allocate a large proportion of the shrimp quota to Prince Edward Island, which remains a source of frustration to Newfoundland and Labrador.

It is beyond the scope of this paper to determine the economic rent that could have been realized if the fisheries were efficiently managed by the federal government over the past few decades. One notes, however, that Iceland – also a relatively small economy – provides an example of fisheries management that has contributed significantly to the maintenance of much higher levels of employment and living standards than experienced in Newfoundland and Labrador since 1949.

In contrast, the oil and gas mining sector did not exist back in 1984-86 and so has accounted for over a third of the increase in provincial GDP over the last two decades. The forestry sector and other mining have been in slow decline over the last two decades. The development of the Voisey's Bay mine will, however, dramatically reverse the fortunes of the mining sector.

The remainder of this chapter will review the benefits that the province receives from its natural resources. The principal question is whether the people of Newfoundland and Labrador are receiving a fair return on their natural resources. It has been argued that the government has often failed to set royalty rates to reflect the fact that natural resources normally have an intrinsic market value over and above the costs of exploiting them. This return is called "economic rent" and it could have provided the province with substantial revenue throughout the lives of the projects.

Determining the right price, or royalty, to charge for natural resources is not simple. Natural resources are sold on world markets at prices set by global supply and demand. Companies can either choose to sell at that price or shut down production. If the province charges too little for its natural resources then companies may choose to produce a higher amount in the province than they otherwise would have and employment and income may rise. The companies involved will make extra profits resulting from the fact that their costs are lower, due to the low provincial royalty charge, while they still sell their output at the world price. If, however, the province charges too much, then companies will produce less which provides fewer jobs to the people of Newfoundland and Labrador. While the province may or may not generate more revenue directly from the resource, it will surely be worse off overall because of the reduced level of economic activity resulting from lower employment and income.

The issue then is what happens to the extra corporate profits that result if natural resource royalty rates are set too low. These profits will accrue to the owners of the companies nearly all of whom live outside the province of Newfoundland and Labrador. The effect, therefore, is to provide extra economic benefit to people other than the residents of Newfoundland and Labrador. To the degree that people in other parts of Canada benefit from this, it could be considered an offset to government transfers to the province. In this era of global multinational corporations the benefits could, however, accrue to nationals of any other part of the world.

There is a profound sense of cynicism now as to whom the benefits of the province's natural resources might accrue. Despite the best intentions of the governments and people involved, projects such as Churchill Falls and the Labrador iron ore mines have left an impression of squandered opportunities.

This study attempts to provide some insight on whether current natural resource royalties are too high or too low by comparing them with rates in the rest of the country. A comprehensive review of natural resource policies in Newfoundland and Labrador and the other provinces was beyond the scope of this report. The measures constructed in this report compare implicit royalty rates for the ten provinces by natural resource category. While the measures presented are crude and imprecise, they do provide a basis for comparison across the provinces. The reader is cautioned, however, to recognize that a definitive statement on whether the province's royalty regime is meeting the needs of the people of Newfoundland and Labrador requires further study. The analysis presented here is just the first step in determining whether a more comprehensive review is warranted.

The Oil and Gas Sector

Growth in the oil and gas sector has been explosive in the last few years and has helped the province become one of the fastest growing in the country. The determination of royalty rates and other provincial revenues from oil and gas development is based upon a number of different factors: the amount produced, the date production started (or vintage), the type and quality of product, and the costs of development and production. For example, exploration and production costs for oil in the offshore area of Newfoundland and Labrador are considerably higher than costs for conventional oil fields in Alberta or even for offshore fields in the North Sea. Royalty rates for reserves developed prior to the first oil crisis in 1973 are higher than for those developed after that time. Higher prices following the oil crisis made previously uneconomic reserves profitable – but only at that higher price. Therefore, governments cannot set royalty rates as high for these newer or more costly projects.

Table 14 provides a summary of the oil and gas industry in Canada. The first line shows the share of national production, in terms of the value of output, by province. Three quarters of the value of oil and gas production in 2001 took place in Alberta. British Columbia and Saskatchewan garnered shares of 11% and 9%. Despite spectacular growth over the last few years, Newfoundland and Labrador still only accounted for 3% of national fuel production in 2001 while Nova Scotia accounted for the remaining 2%.

Table 14: Oil and Gas Provincial Revenue Rates

	NF	PE	NS	NB	PQ	ON	MB	SK	AB	BC
2001 Share of National Fuel Production (value)	3%	0%	2%	0%	0%	0%	0%	9%	75%	11%
Provincial Revenue as Share of Production Value (avg 96-01)	2%							15%	16%	32%

Source: Natural Resources Canada, Canadian Minerals Yearbook; Canadian Association of Petroleum Producers (CAPP)

Provincial revenues from oil and gas mining are reported on a fiscal year basis (i.e. year ending March 31st) while the production data is reported on a calendar year basis. In order to minimize this mismatch, provincial revenue for fiscal years 97-98 through 01-02 was summed and divided by total production from 1997 through 2001. The result is reported on the second line in Table 14 and is the share of oil and gas industry revenues that are collected as revenue by each provincial government. This measure provides an estimate of the economic rent that the province collects from the resource and allows comparisons across provinces.

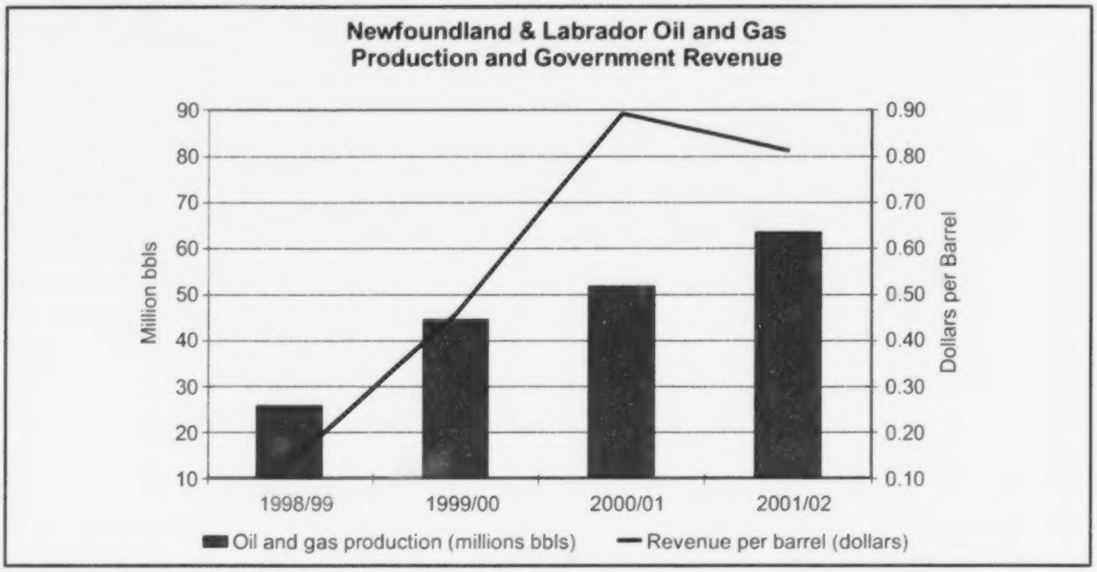
At 2%, the government of Newfoundland and Labrador collects a significantly smaller share of industry revenues than the other provinces. This measure has risen slightly since production started in 1997. Provincial revenue as share of production revenue was 1.7% in 1998-99 and 2.3% in 2000-01.

Figure 18 shows fiscal year production levels of offshore oil. By fiscal year 2001/02, production had exceeded 100 million barrels of oil and was subject to a higher basic payout rate[1]. Provincial revenue, in terms of dollars per barrel, rose as expected until 2000/01 but then stalled in 2001/02 because of lower oil prices.

As mentioned earlier, the determination of appropriate royalty rates is a function of many different factors. The 1985 Atlantic Accord established the framework for management of the province's offshore oil and gas resources. The offshore royalty regime is intended to account for the challenges, risks and costs associated with "frontier" exploration. In simple terms, provincial revenue rises after various levels of production are achieved (or after a certain number of years) and are based on the "profitability" of the project. The profitability of the project is heavily impacted by the substantial costs of developing the offshore oil field. Economic rents are, therefore, lower for the offshore oil fields because of the high cost of development. Higher oil prices will, however, have a positive impact on provincial revenue.

The current royalty structure will likely raise provincial revenues per barrel of oil produced over the next few years. Royalties from the Hibernia oilfield are a smaller proportion of the overall value of its production because of the use of a higher cost Gravity Based production platform constructed in the province. Subsequent developments such as the Terra Nova and White Rose fields are subject to lower costs including the use of floating production structures and a more profit-sensitive royalty regime, which should yield a higher proportion of royalty revenue.

Figure 18



Source: Newfoundland and Labrador Department of Finance

The increase in royalty revenue per barrel of oil over the coming years is, however, likely to be quite modest. And with implicit royalty rates currently of only one eighth the levels calculated for Alberta and Saskatchewan, the government of Newfoundland and Labrador will after likely royalty rate increases still benefit far less from this resource than the other oil producing provinces. While provincial GDP gains will be substantial, the gains to households and the government will be far more limited. The gains in provincial royalties per barrel over the next few years will not lead to the kind of massive surpluses that Alberta has been able to generate from its oil. The gains to households will also be limited because the sector is highly capital intensive. As seen in Figure 17, corporate profits in the province have risen sharply as the companies in the oil sector start to recoup their development costs while labour income gains have been modest. A review of the current royalty regime may be warranted if the share of income going to corporate profits stays significantly above historical norms beyond the next couple of years.

Current projections indicate that oil production, and revenue will grow throughout this decade and peak next decade. Production is expected to diminish between 2018 and 2025. This is a far shorter period of time than the other major oil producing provinces have had to collect economic rent from their resources. This short time frame is another reason why Newfoundland and Labrador is unlikely to experience the same level of fiscal benefits from its oil and gas resources as Alberta. Any changes to the royalty regime will, therefore, have to occur soon if they are to have a material impact on the province's fiscal future.

The federal government's recent ratification of the Kyoto Protocol to reduce Greenhouse Gasses could have a significant impact on the province's economy. The key objective of this treaty is to permanently reduce our emissions of gasses such as Carbon Dioxide starting in 2008-2012. This can only be achieved by using fewer fossil fuels such as oil, natural gas and coal. If the government achieves its goal, then demand for oil and petroleum products will fall by the end of this decade. The oil and gas sector is expected to reduce production at its most costly facilities, which could include the Newfoundland and Labrador's offshore fields. Activity at the Come By Chance refinery could also be curtailed. These projects account for a significant percentage of the province's trade and their disruption would have major repercussions.

The Mining Sector

The mining sector[2] in Newfoundland and Labrador is dominated by the metals sector (95% of the value of total production in 2001) with iron ore accounting for 97%. Over 60% of Canada's iron ore production comes from the Iron Ore Company of Canada and Wabush Mines operations at Labrador City and Wabush, respectively located in western Labrador. The mining sector accounts for 4% of provincial output and is a major source of its exports.

Table 15: Mining Sector Provincial Revenue Rates

	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
2001 Share of National Mineral Production (value)	5%	0%	1%	4%	20%	31%	5%	13%	3%	11%
Provincial Revenue as Share of Production Value	2%				1%	1%	2%	11%		3%

Source: Natural Resources Canada, Canadian Minerals Yearbook;
Governments of Newfoundland and Labrador, Quebec, Ontario, Manitoba, Saskatchewan and British Columbia

Table 15 provides a summary of the mining sector in Canada. The first line shows the share of national production, in terms of the value of output, by province. Ontario and Quebec accounted for over half the value of mining production in 2001. Saskatchewan and British Columbia also have significant mining sectors. Newfoundland and Labrador accounted for 5% of national mineral production in 2001.

Provincial revenues from mining are reported on a fiscal year basis (i.e. year ending March 31st) while the production data is reported on a calendar year basis. As before, provincial revenue for several fiscal years was summed and divided by total production for matching calendar years in order to minimize the impact of this mismatch. The result is the share of mining industry revenues that are collected as revenue by each provincial government[1].

At 2%, Newfoundland and Labrador government revenue is comparable to the revenue collected by most other provinces. Ontario and Quebec each only collect 1% and, effective this year, Ontario is reducing its mining tax by 50%. The exception is Saskatchewan which is able to effectively capture the economic rent from its sizable potash deposits. Excluding potash, it does not appear that the type, and therefore value, of mineral produced has a significant impact on the royalty rate that provinces are able to set. Provinces appear to collect, for example, 1% of the value of either gold or iron ore produced rather than a high percentage for higher value minerals and a low percentage for lower value minerals.

The announced development of the Voisey's Bay nickel deposit could practically double the size of the province's mining sector when production begins in 2006. This time the Government of Newfoundland and Labrador has tried to ensure higher benefits for the province by negotiating the construction of a processing plant in Argentia for the mine's ore. This condition addresses the lingering concern regarding the permanent loss of jobs and income to Quebec at the pelletizing plant in Pointe-Noire and to the town of Schefferville both of which benefit from iron ore mined in Labrador. There is a sense that political decisions "robbed" the province of the opportunity to enjoy the full benefits of its iron ore resources.

The Forestry Sector

The forestry sector in Newfoundland and Labrador represents about 1 percent of provincial GDP. Ownership of the sector is highly concentrated with firms that have very long-term, renewable forestry leases at rates that are less than favorable to the provincial government.

Table 16: Forestry Sector Provincial Revenue Rates

	NL	PE	NS	NB	PQ	ON	MB	SK	AB	BC
2000 Share of National Timber Harvested (volume)	1%	0%	0%	3%	20%	16%	1%	3%	12%	43%
Provincial Revenue per cubic metre (avg 96-00)	$1.82	$20.53	$6.91	$10.31	$6.64	$10.80	$2.76	$1.78	$5.81	$24.16

Source: Canadian Council of Forest Ministers, National Forestry Database

Table 16 provides a summary of the forestry sector in Canada. The first line shows the share of national timber harvested from Provincial Crown Lands, in terms of the volume of output[1], by province. The British Columbia forestry industry dominates national production at 43% of the total. Ontario, Quebec and Alberta also have significant forestry sectors. Newfoundland and Labrador accounted for 1% of national forestry production in 2000.

Provincial revenues from the sale of timber from Provincial Crown Land are reported on a fiscal year basis (i.e. year ending March 31st) while the production data is reported on a calendar year basis. Provincial revenue for fiscal years 96-97 through 00-01 was summed and divided by total production from 1996 through 2000 in order to minimize the impact of this mismatch. The result is the average revenue per cubic metre collected by each provincial government from Provincial Crown Lands[2].

This analysis reveals that Newfoundland and Labrador has the second lowest revenue rate from its forestry resource in the country. Only Saskatchewan collects less. Newfoundland and Labrador's revenue rates are only a third to a fifth of those in Nova Scotia and New Brunswick; provinces with similar species of trees. Newfoundland and Labrador's harvested wood is primarily used in newsprint production which is controlled by two companies at three mills in the province. The low rent collected on the timber subsidises the capital employed in the newsprint sector. Since the companies involved are multi-nationals, much of the benefit from this resource accrues to interests outside the province.

Natural Resources, Who Benefits?

It is evident that Quebec has enjoyed substantial economic and fiscal gains from Newfoundland's natural resources. Their investment in the Churchill Falls project secured a source of cheap electricity that has helped Quebec develop a strong manufacturing sector. Processing, transportation and management of Labrador's iron ore has also been a significant source of employment and income Quebec.

The distribution of the "economic rent" from the province's oil and gas, mining and forestry resources is not known with certainty. The government of Newfoundland and Labrador appears to collect, at best, a modest return on these assets. The analysis in this report indicates that the province has either the lowest, or nearly the lowest, average revenue associated with its natural resources of any other province. The net benefit, therefore, flows to the owners of the factors of production. These companies and people are located throughout Canada and the rest of the world.

So, has Newfoundland and Labrador reaped sufficient rewards from its natural resource riches? Economists think of there being three factors that help an economy produce goods and services: labour, capital, and natural resources. Newfoundland and Labrador has, in general terms, only two of these three factors: labour and natural resources. As discussed earlier, the province's labour force has shrunk substantially over the last decade and with changes in technology and shifts in the natural resources being exploited from fish to oil, the need for labour will expand marginally at best over the coming decade. The third factor of production, capital, has flowed into the province from the rest of the country and – to a lesser degree – the world.

The free flow of capital is a benefit to both Newfoundland and Labrador and the rest of Canada from the economic union. The inflow of capital has made it possible to exploit the natural resources providing jobs and income for the province. It is also clear that the province's natural resources are a source of significant income for people throughout Canada – and through global interests – the rest of the world. The benefits to Newfoundland and Labrador accrue to labour and the public sector. Although workers in this sector may be paid high wages, there are relatively few of them, thus limiting the benefit to the province. But provincial income from these resources is also low relative to other provinces. Further research would be required to develop an understanding of the reasons why natural resource returns in the province appear to be low and whether any changes in policy are warranted.

Endnotes

[1] GDP or Gross Domestic Product is a measure of the value of goods and services produced each year by an economy.

[2] Some research has been done comparing Newfoundland and Labrador with countries such as Iceland, Norway and Ireland.

[3] The Provincial Economic Accounts data used in this report is from the November 2002 release.

[4] The Labour Force Survey does not provide employment estimates for the individual industries in this sector.

[5] A nation-wide phenomenon.

[6] The province's share of employment is slightly over-stated because data for the Yukon, Northwest Territories and Nunavut are excluded from the total.

[7] Current spending includes spending on goods and services; transfers to persons, business and government, and interest on the public debt. It excludes spending on non-financial capital, net capital transfers and a capital consumption allowance.

[8] This is the sum of public investment in fixed capital and inventories and the acquisition of existing assets.

[9] Net spending – the difference between revenue and expenditure – is referred to as net lending by Statistics Canada reflecting the notion that saving occurs when revenue (or income) exceeds expenditure and borrowing (or lending) occurs when the reverse is true.

[10] The remaining figures and tables in this chapter are based upon actual (or nominal) dollar figures rather than constant chain weighted dollars. This is done for several reasons: (i) there is more detailed information available in nominal dollar terms; (ii) ratio analysis and shares are not valid using constant chain weighted dollar data; and (iii) nominal dollars are less abstract than 1997 constant chain weighted dollars.

[11] The November 2002 APEC **Atlantic Report** finds that Newfoundland and Labrador should lead the country with real growth in excess of 8% in 2002. They also forecast that the province is also likely to be a growth leader in 2003 with real GDP growth of about 4.4%.

[12] International import data are recorded by province of clearance, which does not always coincide with the province of consumption. International imports cleared in another province and shipped by a wholesaler to Newfoundland and Labrador would count as an interprovincial import.

[13] The concentration ratio is constructed by dividing Newfoundland and Labrador's share of its exports/imports to a given country by the same ratio for Canada and then multiplying by 100. An index value of more than 100 means that country is more important to Newfoundland and Labrador as a trade partner than it is to Canada. Conversely, a value

of less than 100 means that Newfoundland and Labrador's trade with that country is proportionally less than Canada's trade with the country.

[14] The transshipment issue may partly explain Newfoundland and Labrador's apparent lack of US imports since international imports cleared in another province and shipped by a wholesaler to Newfoundland and Labrador are counted as interprovincial imports.

[15] The trade data in Table 8 is presented in terms of five digit NAICS industries. The tables report trade in the products produced by that industry – either within the province for exports or by a foreign supplier for imports.

[16] Obstfeld, Maurice and Kenneth Rogoff (1996). Foundations of International Macroeconomics. Cambridge, MA: The MIT Press. Page 16.

[17] Demographic Change: Newfoundland and Labrador Issues and Implications, Government of Newfoundland and Labrador, April 2002.

[18] Corporate profits before tax are measured as a share of net domestic product at basic prices.

[19] This is equal to one minus the ratio of people in the labour force as a share of the total population in 2002.

[20] The source population is defined as all people eligible to enter the labour force.

[21] This estimate was derived from the CQM's Phillips' Curve. The Phillips Curve traces the relationship between wages and the unemployment rate. The assumed reduction in the labour force leads to a reduction in the number of unemployed and, therefore the unemployment rate. A decrease in the unemployment rate leads to an increase in the wage rate.

[22] The discount rates used varied by concept. For nominal concepts such federal government revenue and expenditure the rates used was 6.1% - the average yield of Government of Canada 10 year bonds from 1995 to 2002. For real GDP (restated in millions of 2002 constant chain weighted dollars), the rate used was 4.2% - the average yield for Government of Canada 10 year bonds less the CPI inflation rate from 1995 to 2002. And a discount rate of 0% for concepts such as rates of inflation, interest, exchange and unemployment rates, the labour force and unemployment.

[23] Indirect taxes include the GST which generates more revenue when prices rise.

[24] The contract will expire in 2041.

[25] The Centre for Spatial Economics reviewed the Department of Finance's assumptions and approach and believes they provide a reasonable assessment of the costs to the Province of the Churchill Falls contract over the last decade.

[26] Average revenue per MWh in Quebec over the 1990s ranged from roughly $46 to $56. Wheeling (transmission) costs of about $15 to $20 per MWh would leave roughly $20 to $40 per MWh of surplus that could be paid to CF(L)Co.

[27] The fiscal assumptions adopted here are common for this type of analysis. There are, however, numerous alternative assumptions that could have been made regarding the choice between deficit and debt reduction, tax relief or spending increases and combinations of these measures.

[28] The analysis assumed that the increase in electricity revenue would be treated as a royalty and not subject to the Federal corporate income tax of 28%. If the revenue were treated as corporate profits, the Federal government would collect an additional $160 to $320 million in taxes a year – and the revenue available to the Provincial government would be reduced.

[29] The next, and final, increase in payout rates occurs after 200 million barrels of production which was reached in 2002.

[30] The mining sector includes metal and non-metal mining but excludes oil and gas mining.

[31] Provincial government mining revenue for Ontario includes its (small) oil and gas activity. Provincial revenue data for Quebec was available for 2 years (2000/01, 2001/02), for Manitoba was available for 3 years (1999/00 through 2001/02), and British Columbia was available for 4 years (1997/98 through 2000/01).

[32] Thousands of cubic metres

[33] The provincial revenue data used in this analysis is for the sale of timber from Provincial Crown Land and includes the following types of charges (not all categories are levied by each province): stumpage, sales and rentals, permit & licence fees, reforestation levies, protection fees, rent charges, area/holding charges, bonuses, penalties and interest charges.

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Royal Commission on Renewing and Strengthening Our Place in Canada

Demographic Trends and Implications for Public Policy

— Craig Brett

February 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

The population of Newfoundland and Labrador is declining due to falling birth rates and persistent outward migration. The population that remains is ageing and becoming more urbanised. This report examines the co-evolution of settlement, settlement policy and economic development initiatives in Newfoundland and Labrador.

It is argued that out-migration is not unique to rural Newfoundland and Labrador, and that rural economic development initiatives are unlikely to result in substantial population gains in outlying areas. Moreover, there is no compelling argument that increases in rural population are desirable for their own sake, or as a way to improve overall economic efficiency. The motivation for a policy response to demographic change is based on the entitlement of all citizens to reasonable levels of public services, even those residing in small, rural communities. If no attempt is made to alter the delivery of public programmes, it will become increasingly difficult to provide medical care and municipal services to the more thinly populated, rural areas of the province.

Even if it were desirable, it is very difficult for policy makers to exert direct control over the evolution of population structure. However, policy makers need to be aware of demographic trends and the associated challenges. These challenges are best met by attempts to foster industries with important local linkages, and continued upgrading of the skills base of the economy. Two of the areas most affected by the projected demographic trends are health care and municipal services. Policy makers need to focus attention on discovering and implementing the most effective uses of scarce resources in these two vital areas.

Contents

Introduction 63
The Demography of Newfoundland and Labrador 63
Migration From Newfoundland and Labrador in Context 65
A Brief Sketch of Economy and Population 67
Some Economic Theory of the Location of Production 68
Bringing People to Jobs and Bringing Jobs to People 71
Policy-Making for a Smaller, Older Population 74
A Role for Demographic Policy 76
Lessons From Elsewhere 77
A Notable Exception 79
Conclusions 79
Recommendations 80

Endnotes 83
Bibliography 84
Appendix 86

Introduction

Newfoundland and Labrador is the newest province of Canada, but its population is fast becoming one of the oldest. Over the last three decades, declining birth rates, out-migration, and increased life expectancy have contributed to a remarkable shift in the human face of Newfoundland and Labrador. According to most demographic measures, the overall population of Newfoundland and Labrador has aged faster than the Canadian average. Rural Newfoundland and Labrador has aged faster still. With changes in the people of Newfoundland and Labrador come changes in its society, economy and institutions. Governments face a changing constituency, with evolving needs. The often voiced concern over the sustainability of publicly funded health care in the face of an ageing population is an important issue, but by no means the only challenge posed by an ageing population.

At the same time, government policy has the power to shape demography. Newfoundland and Labrador is no stranger to population policies. The Resettlement programmes of the 1960s are among the most striking examples of policies intended to influence the composition of population. Yet, the choice of where to live is a complex decision, influenced by the overall quality of life enjoyed by individuals and families. Any policy that affects the well-being of Newfoundlanders and Labradorians can induce people to leave the province or attract migrants to the province, even if population redistribution is not among its objectives.

This report summarises the recent demographic history of Newfoundland and Labrador in light of wider trends in settlement and economic development. A summary and evaluation of some the major policy initiatives of the last four decades is provided to set the context for the current debate. The arguments for demographic policy are presented and interpreted in the Newfoundland and Labrador setting. Comparison with national migration patterns and the characteristics of some other regions of the country reveals the distinctive, and sometimes not distinctive, features of Newfoundland and Labrador. A brief look at the efforts of other jurisdictions is offered to suggest promising avenues for reform.

The policy challenges faced by Newfoundland and Labrador are not unique, but the demographic structure of the province makes them somewhat more pronounced. This report concludes with some recommendations that, it is hoped, will help policy makers to meet these challenges.

The Demography of Newfoundland and Labrador

Newfoundland and Labrador joined Confederation with approximately 360,000 inhabitants, and the population grew to just over 580,000 by the early 1990s, when population began to fall to the current level of approximately 520,000.[1] As in all of North America, the province saw accelerated population growth between Confederation and the early 1980s, owing to the post-World War II baby boom and increased life expectancy. Total births climbed steadily until the mid-to-late 1960s, fell slightly in the late 1960s and remained steady in the early 1970s, a time when Canada as a whole was experiencing a more pronounced baby bust. The fertility rate (births per female of child-bearing age) has fallen dramatically since the mid-1970s, to the extent that the province now has the lowest fertility rate in the country. The death rate in the province has crept upward in the last 30 years, as the population has aged. While births exceeded deaths by more than 12,000 in early 1960s, fertility and mortality are roughly equal today.

Population is shaped by more than just births and deaths. People move across borders. Migration has had a profound effect on Newfoundland and Labrador demographics. Confederation removed all legal impediments to Newfoundlanders and Labradorians taking up residence in other parts of Canada — and many have taken the opportunity.[2] In most years since Confederation, more people left the province for other parts of Canada than moved to the province from the rest of the country. Indeed, this fact, combined with the province's relative lack of success in attracting immigrants to Canada, has meant that even when the province's population was growing, it never grew at a rate equal to the national rate of population growth (Statistics Prince Edward Island, 2002, p.2). Appendix Figure A1 shows that Newfoundland and Labrador had the lowest rate of inflow of immigrants of any province from 1996 to 2001, and that only Quebec had a lower rate of inward migration from the rest of Canada. The outflows of population during the 1960s and 1970s have reinforced the fall in the rate of natural population growth by siphoning off families that would have had children in the late 1980s and early 1990s. While Canada as a whole was experiencing a baby echo in this period, birth rates steadily declined in Newfoundland and Labrador. Newfoundland and Labrador has recently experienced another period of sustained out-migration. While total outflows have been high recently, they have not been outrageously so. Between the censuses of 1991 and 2001, the population of Newfoundland and Labrador fell by 10.1 per cent, while the rate of natural increase was 3.3 per cent, so net out-migration was approximately 13.4 per cent. Between the censuses of 1961 and 1971, net out-migration was approximately 9.7 per cent, but the population increased by 14 per cent. The rapid decline in natural population increase has made the demographics of Newfoundland more sensitive than ever to net migration flows.

The aggregate picture of migration from Newfoundland and Labrador tells only part of the story. Perhaps more telling is the timing of net migration. Roughly speaking, net migration from Newfoundland and Labrador is pro-cyclical; that is, the largest net losses in the province's population occur when the economy in the remainder of Canada is booming.[3] Copithorne (1986) attributes this phenomenon to the composition of migrants. Out-migrants tend to be of working age, and respond to the pull of jobs elsewhere. Children are more likely to be represented among the in-migrants, perhaps the offspring of returning migrants. Total in-migration is therefore less sensitive to the business cycle than out-migration. Thus, the cyclical pattern of out-migration is replicated by net migration. The most recent increase in out-migration, occurring over the past few years, also coincided with a boom in the national economy, but is attributed to events at home surrounding the Atlantic Groundfish Moratorium. It is too early to tell if large numbers of these migrants (and their families) will eventually return. However, the Economics and Statistics Branch (2002a) predicts some improvements in economic conditions in the province, so that by 2010 there may be net in-migration. However, the continued decline in the natural growth rate of the population is expected to ensure that the overall population of the province will continue to fall until 2015.

Migrants tend to be young. Hence, the net effect of decades of population outflow is a rapid ageing of the population. According to the Economics and Statistics Branch (2002a), the fraction of the province's population below the age of 20 years fell from one-half to one-quarter from 1971 to 2002. Meanwhile, the share of persons over 50 years of age climbed to one-quarter from one-sixth. The median age of provincial residents has risen nearly 17 years in that time, pushing the provincial median age from four years below the national median to over half a year above it. Health Canada (2002, p.7) projects that the percentage of seniors in Newfoundland and Labrador will approximately double over the next two decades, and the province will make the transition from having the fewest seniors per capita among the 10 provinces to the most seniors per capita.

Just as the overall demography of Newfoundland and Labrador has diverged, in detail at least, from the national picture, population change has impacted the regions within the province differently. On average, rural areas of the Island have seen the largest decreases in population over the last 10 years and have the highest median ages. Internal migration has tended to be from the rural areas to larger centres, particularly to the St. John's region. While all of the Island's economic zones experienced a decline in population between 1991 and 2001, the Capital Coast (the St. John's region) experienced a modest decline (1.2 per cent), while the Marine and Mountain (southwestern Newfoundland), Nordic (eastern Northern Peninsula) and Avalon Gateway (southwest Avalon) regions all experienced declines in excess of 20 per cent of their population (Economics and Statistics Branch, 2002a, p. 9). Not surprisingly, the median age in the Marine and Mountain economic zone is 41 years, more than three years above the provincial median. Only the Exploits Valley, St. John's and the Southeast Avalon and Western and Northern Labrador (where birth rates are the highest in the province) are expected to see any increases in population between 2001 and 2016. Rural Newfoundland is expected to shrink and age.

Migration From Newfoundland and Labrador in Context

In a series of papers analysing the Canadian Longitudinal Administrative Database, Finnie (1998, 2001), tracks the pattern of inter-provincial mobility of Canadians between 1982 and 1995. On average, Canadians tend to move to nearby provinces, larger provinces or more westerly provinces. Newfoundland and Labrador is none of the above. Rates of inter-provincial migration fell with age. Newfoundlanders and Labradorians were, on a per capita basis, the third most likely to move at least once in the study period, behind Saskatchewanners and Albertans, while Newfoundlanders and Labradorians were the most likely to move away and return home (Finnie, 1998, p.43). At the national level, men and women have roughly similar migration behaviour, but men were more likely to leave Newfoundland and Labrador than women (Ibid, p.27). Nationally, higher income induces greater mobility for men, but appears to reduce the mobility of women. The evidence on the effects of mobility on earnings are mixed. It appears that men, especially young men (even more so young men from have-not provinces), experience significant earnings increases after changing provinces. The earnings of women appear to fall after changing provinces. Return migrants tended to have the lowest wages of all, both before moving at all and upon returning home. Finnie (2001) remarks that the gender differences in the impact of mobility on earnings may reflect a family decision-making process. The decision to move may be primarily determined by career considerations for husbands, with wives making sacrifices. No analysis of differences between single and married women was carried out to test this claim, however. Given the propensity to return migration shown by Newfoundlanders and Labradorians, the poor performance of return migrants is particularly troubling. It is the most poorly equipped for labour market success, perhaps, who fail to adjust to life on the mainland and subsequently return home.

Some indication of the mobility of young, skilled individuals is found in a study of the National Graduate Surveys of 1982, 1986 and 1990, conducted by Burbidge and Finnie (1999, 2000). They find that baccalaureate graduates are more geographically mobile than the general population. The mobility behaviour of male and female graduates is roughly similar. Unlike general migration, moving to university tends to be dominated by proximity. Most individuals who study out-of-province study in a nearby province. The only exception to this rule is that Nova Scotia appears to attract students from many provinces. Newfoundland and Labrador had the second largest net outflow of students (Burbidge and Finnie 1999, p.15). While in the middle of the pack with respect to retaining home students, Newfoundland and Labrador had the second lowest percentage of out-of-province graduates. Moreover, students who attend university elsewhere tend not to return. This was especially true for the 1986 cohort of Newfoundlanders and Labradorians. A mere 11.5 per cent of the Newfoundlanders and Labradorians educated elsewhere in Canada from this cohort were residing in Newfoundland and Labrador five years after graduation. The 1982 and 1990 cohorts had return rates of just over 20 per cent. (Ibid, p.21.) This behaviour of graduates is consistent with the general pattern of pro-cyclical migration from Newfoundland and Labrador. For new entrants in the labour market, the pull of the mainland in good times is stronger than the push from Newfoundland and Labrador in bad times. The effects of gender on wage differentials between movers and non-movers found in the general population also holds for recent graduates.

It has been suggested by Conway and Houtenville (2001) that the elderly may become more mobile in the near future. Increased life expectancy increases the potential gains to moving upon retirement. Moreover, the lack of attachment to the labour force that accompanies retirement might spur mobility. Based on US data, Conway and Houtenville show that cost-of-living and climate considerations are more important than public policy variables in shaping the residential choices of seniors. Surprisingly, differences in medicaid programmes across states appears to have little impact on mobility. States that exempt food from sales taxation are more attractive to seniors, though. Liaw et. al. (2002) find that the presence of adult children can also act as a magnet for seniors. This effect is most pronounced among older, widowed seniors. It is not certain that this evidence can be generalised to the Canadian context, but if it can, one can imagine a relatively large outflow of seniors from Newfoundland and Labrador in the years to come, given the significant numbers of Newfoundlanders and Labradorians with adult children on the mainland.

A Brief Sketch of Economy and Population

All economic activity originates from people. People choose where to live, where to employ their labour and capital, and where to consume. Part of consumption may be tied to the place of consumption, and some parts of the production process are facilitated by the location of inputs, both naturally occurring and those brought to a location by its people. At the same time, the choice to settle, work, raise children, or retire in a particular location is affected by economic conditions. Few working families are attracted to areas with minimal job prospects, low pay and few amenities. The managers of firms shy away from regions with few inputs, uncertain business environments or insufficient access to markets. What economic forces have led to the current demographic situation in Newfoundland?

The proximate cause of the recent population exodus is the closure of much of the Atlantic cod fishery, perhaps combined with favourable economic conditions elsewhere in Canada which gave displaced fishers and fish processing workers jobs to go to elsewhere. But a full explanation of the recent exodus requires that the sources of dependence of the provincial economy on the fishery be identified, and an explanation of why other sectors of the economy were unable to absorb more displaced workers than they have to date.

The importance of the fishery to the economic development, indeed to the very existence, of Newfoundland and Labrador is well-studied and documented. Yet even in the 1970s observers commented on the persistence of a labour-intensive inshore fishery well past the time at which more capital intensive offshore and mid-range fisheries proved feasible, and perhaps more profitable.[4] Numerous explanations have been offered for the continued attachment of Newfoundlanders and Labradorians to the inshore fishery. Copes (1972) and Copithorne (1986) place some emphasis on the open-access nature of the fishery. That is, modest attempts at licensing schemes notwithstanding, anyone was free to enter the fishery. Given the relatively low fixed costs of acquiring boats and equipment (and these were often subsidised), the inshore fishery was an employer of last resort. There exists an incentive to enter the fishery as long as there is some, no matter how small, excess of total revenue over total cost. However, new entrants reduce the profits of existing fishers in two ways. First, if they catch significant new volumes of fish, prices fall. Second, by competing for the stock, they make it more difficult for others to maintain their catch. Thus, with new entrants, one would expect the net income of fishers to fall. This phenomenon, known as rent dissipation, continues until all net profits are erased. The standard cure for rent dissipation prescribed by economists is a set of tradeable fishing quotas. A requirement to buy a quota limits access, thereby ameliorating the reduction in rents. Trade in the permits allows the price of the quota to adjust as the rents from fishing change, which gives potential fishers accurate signals as to the true value of entering the industry. A recommendation by the Economic Council of Canada (1980) in favour of the adoption of a tradeable permit scheme was strongly rejected by the provincial government of the day. Income support policies in place throughout the 1970s and 1980s, which supplemented seasonal fishing and fish processing incomes with Unemployment Insurance payments, may have also played a part by further encouraging entry into the industry. These programmes remained essentially unchanged between 1971 and 1995.

Despite the seemingly heavy subsidisation of inshore fishing activities, rural Newfoundland and Labrador was gradually de-populated in the first three decades after Confederation. As

Reid (1980) observed, the pattern of settlement transformed from one scattered around bays to one with prominent peninsulas. By 1976, much of the commercial activity of the province was located at a series of towns and cities along the Trans Canada Highway (St. John's, Gander, Grand Falls, Corner Brook, Stephenville and Port-aux-Basques). Each of these centres served as a shopping and distribution centre for a rural hinterland, connected to its centre by roads jutting out from the Trans Canada Highway. St. John's was (as it is today) the primary retail and wholesale location, while Grand Falls and Corner Brook comprised a second tier of the urban hierarchy. While more geographically concentrated than at the dawn of Confederation, the population remained much more dispersed than the populations of other urban hierarchies of the day.[5] As House (1986) observed, by the late 1970s the people of the outports had two viable options for employment: move or engage in the fishery. In 1992, for many, it seems, the number of options shrank from two to one.

Some Economic Theory of the Location of Production

Are the current trends in the demography of Newfoundland and Labrador a natural consequence of the evolution of the market economy, or are they essentially policy-induced? Was the population of Newfoundland and Labrador too large or too dispersed during its first 50 years in Confederation? Are we on an inevitable transition to a less populous, more urbanised province? Will those who remain be better off for it? These are, undoubtedly, difficult questions to answer. Given the difficulties in social science research, these are perhaps questions that only history (written in the future) will ultimately answer. Nevertheless, economic theory can shed some light on the labour market conditions and industrial structure of Newfoundland and Labrador.

Neoclassical economic theory provides a straightforward explanation of the location of economic activity. Production is said to occur according to the factor abundance theory. Regions with a relatively greater endowment of skilled labour, say, will specialise in goods that require a relatively large skilled labour input. Areas with easy access to natural resources will specialise in their extraction and production. By specialising in the appropriate activities, regions can maximise their overall productivity and trade surpluses of their production for the surpluses of other regions. Thus, Newfoundland and Labrador is better off trading shrimp for bananas than attempting to produce its own tropical fruits. This part of neoclassical trade theory has long been appreciated in policy circles. As Copithorne (1979) pointed out, some other lessons from neoclassical trade theory were learned much later. First, in the absence of labour mobility, trade in goods leads to an equalisation of the price of un-traded inputs, including labour. If labour were more expensive in a region that specialises in, say, yams, then the price of yams would rise beyond equilibrium levels. The equilibrating reduction in the quantity demanded of yams would depress the demand for inputs used in their production, and the price of these inputs would fall. Second, labour mobility tends to equalise wages across regions. Thus, despite the excess supply of workers in Newfoundland and Labrador, one might not expect to see a significant difference in wages between the province and the rest of Canada.

While average wages have been consistently lower in Newfoundland and Labrador than in the rest of Canada, Copithorne (1986) provides evidence that changes in wages in Newfoundland and Labrador track changes in wages in Ontario. Indeed, as Appendix Figure A2 demonstrates, real wages in Newfoundland and Labrador continued to move roughly in step with wages elsewhere in Canada during the 1990s. If this view of inter-regional trade is correct, which essentially boils down to the acceptance of pervasive perfect competition in the economy, then forced out-migration is unlikely to raise the wages of those who remain. Moreover, a reallocation of labour within Newfoundland and Labrador toward, say, the oil and gas industry would not increase equilibrium wages either.

An hypothesis consistent with neoclassical trade theory is that the persistent gap in wages between the province and the rest of Canada is caused by a different mix in the skill endowments of the populations. Average wages in Newfoundland and Labrador could be raised by changing the level of human capital embodied in labour. While market re-allocations of labour of the same quality cannot increase relative wages in one region, a change in nature of the inputs themselves can. On this view of the economy, special emphasis on education and training is to be recommended as a way to improve income. This same policy conclusion could be arrived at by considering Newfoundland and Labrador as a closed economy. An increase in the skill level of workers increases their productivity, thereby increasing the demand for labour. Along with an increased demand comes increased employment and perhaps an increase in wages.

Neoclassical trade theory is not the only lens with which to view the working of the economy. Indeed, the labour market equilibrium conditions underlying neoclassical theory assume away the existence of involuntary unemployment. A staunch advocate of neoclassical theory might argue that unemployment in Newfoundland and Labrador can be explained by households withdrawing labour from the market in order to concentrate on home production. It is difficult to imagine, however, that the high and sustained levels of unemployment experienced in the province are purely illusory. Equally troubling is the inability of neoclassical trade theory to square with recent trends toward the concentration of economic activity. Urban areas cannot be gaining a comparative advantage in everything. Moreover, as Brakman et. al. (2001) argue, there are several features of international trade that cannot be explained by the neoclassical theory. Notable among these is that much international trade is intra-industry (cars for cars) instead of, as the factor abundance theory suggests, inter-industry (cars for fish). Recently, economists have begun building models of spatial economic equilibrium that attempt to shed some light on agglomerations and the pattern of trade. This is the so-called New Geographical Economics.

The New Geographical Economics is based on increasing returns to scale. Some sets of industries, usually referred to as manufactured goods, are assumed to be produced by firms with average costs that decrease with output. Thus, perfect competition, which requires a large number of firms, is not possible. Instead, a monopolistic competitive economy is envisaged. Each manufacturer produces a slightly different good, and consumers have a preference for diversity. This preference for diversity gives each firm some degree of market power, so that it can charge a price in excess of marginal cost. However, firms can enter the market until pure economic profit is whittled away. The larger the demand for manufactured goods, the greater is the potential for firms to profitably enter the market. Geography enters the model through the costs of transporting goods. All else equal, if one region has a greater demand for manufactured goods, perhaps due to a larger initial population, then firms will wish to locate there in order to minimise transportation costs. But increases in transportation costs do not make agglomeration more likely. There comes a point when transportation costs are so high that all production has to move near its demand. (There is always some income generated in all regions due to the presence of a set of non-traded commodities.) Put differently, if globalisation entails a reduction in transportation costs, then it may act as an inducement to agglomeration. The formation of an urban hierarchy in Newfoundland following the building of the Trans Canada Highway is certainly consistent with this view of the world.

There is more to agglomeration than just concentration of the demand for final goods. Fujita et. al. (1999) argue that important linkages among production activities can help explain the spatial structure of the economy. Just as a large variety of final goods are preferable to consumers, a large variety of intermediate inputs is, they argue, beneficial to firms. If production is characterised by costs that decrease in the variety of intermediate inputs available, then regions with relatively large manufacturing sectors have two additional advantages in attracting still more firms. First, a large manufacturing sector implies a large variety of inputs available on the local market; hence, reduced costs. This is sometimes called forward linkages — intermediate goods manufacturers pass cost advantages up the production chain. Second, a large final manufacturing sector offers opportunities for more producers of intermediate goods to operate. This type of interaction is called backward linkage. In this kind of economy, the forces of agglomeration may be so strong as to lead to persistent differences in real wages across regions. Lower real wages are not enough to entice manufactures away from the region with larger demand (be it from consumers or other producers) for their products.

A world dominated by forward and backward linkages is a world of virtuous and vicious circles. Markets breed production and income, which increase the size of markets; low incomes cause an exodus of industry, causing a further decline in income. If that were a complete description of the modern economy, then there would be little hope for the development of poorer regions. Yet, from time to time, nations or regions experience rapid increases in per capita income. It is easy to imagine that a virtuous circle of industrial agglomeration cannot continue indefinitely. If wage differentials become sufficiently pronounced, some industries will eventually leave the agglomeration. Fujita et. al. (1999, pp.270-276) identify the characteristics of industries that are most prone to leave a pre-existing agglomeration. First, there are the most labour intensive, which gain the most from migrating to a lower wage region. Second, there are final-demand oriented industries and industries with modest intermediate input requirements, which benefit least from the cost savings associated with a thick market for intermediate inputs. If industrial structure is decidedly upstream-downstream, then firms in the most upstream industry will move away first, and downstream firms will soon follow (See Appendix Figure A3). If, on the other hand, industrial structure has some firms that are strongly linked, and others weakly linked, then the weakly linked firms will split off first, but new agglomerations tend to grow slowly. The new firms fail to attract others in large numbers.

Bringing People to Jobs and Bringing Jobs to People

Policy makers have had no shortage of ideas and advice on how to best allocate the population of Newfoundland and Labrador. Nor is there any shortage of prima facie reasons for policy makers to be concerned with the distribution of population. If agglomeration economies are significant, then it is simply inefficient to have a population scattered among the bays and inlets of Newfoundland and Labrador. Moving individuals might increase productivity enough to simultaneously improve the lot of the movers and the current residents of larger locations. Economies of scale in the provision of public services is also a major concern. There are large fixed costs involved with establishing schools and hospitals, which would be difficult to spread among a small number of inhabitants. Greater dispersal of population also increases the cost of roads, or necessitates the use of more expensive forms of transportation, such as air and sea links. Given that one's place of residence is typically near one's place of primary economic activity, population policy and economic development policy are intertwined.

Newfoundland and Labrador entered Canada with a small local manufacturing sector, a land-based natural resources sector (forestry and mining) and, of course, the fishery. Confederation gave Newfoundlanders and Labradorians access to cash payments from the federal coffers (notably the baby bonus) and tariff-free access to Canadian manufactured goods. Economies of scale in mainland industries, combined with transportation subsidies, eroded the position of indigenous manufacturing. People used mainland money to buy mainland products. Economic policy of the 1950s centred on attracting large industries to the province with cash subsidies, hoping that they might eventually become profitable and that Newfoundland and Labrador would develop an industrial economy comparable to the one on the mainland. Few of these industries thrived in Newfoundland and Labrador. The reasons for their demise, as summarised by the Economic Council of Canada (1980, p.7), include the costs of acquiring inputs and transporting outputs, a lack of skilled workers, and inadequate or antiquated equipment. In short, the large-scale industries chosen as vehicles of development required a set of forward and backward linkages unavailable in the province at that time.

As notorious as the industrial development initiatives of the 1950s turned out to be, the Resettlement Programmes proved even more so. The first of these programmes, the Centralization Program, began in 1954 as a cash subsidy to households who wished to move from isolated outports. In order to qualify for a subsidy, every household in a settlement would have to agree to move. The unanimity criterion reflected the programme goal of moving people to locations where public services and infrastructure could be most easily provided, or, what amounts to the same thing, to save the costs of providing services in isolated areas. Further evidence of this interpretation of the programme's objectives is that households receiving grants could move anywhere they wished. The Federal-Provincial Newfoundland Fisheries Household Resettlement Program replaced the Centralization Program in 1965 and operated until 1975. The Resettlement Program gave more generous levels of subsidy and eliminated the unanimity requirement. Settlements in which 90 per cent (later 80 per cent) of the households applied for assistance were termed designated areas. Individual households applied for grants, and while residence in a designated area aided in the approval of an application, it was not necessary.[6] Some control over the destination was exerted in the operation of the Resettlement Program, hoping to push families toward areas targeted as economic growth centres. The Economic Council of Canada (1980) suggests that the attempts to control the destination of resettled families helped to increase resistance to Resettlement, contributing to its political demise. In all, more than 200 communities were closed down and over 28,000 people (about six per cent of the 1961 population of the province) were moved (Economic Council of Canada, 1980, p.14).

Resettlement, highway construction and an increased demand for public services contributed to the emergence of the peninsular structure of Newfoundland settlement. At the same time, inflows of transfer payments and various subsidies to the fishing industry provided incentives to stay in fishing communities along the bays. It is impossible to tell what the pattern of settlement in Newfoundland and Labrador would have been without the policies that were in place. Nevertheless, it is known that much of the subsidised relocation was from very small fishing communities to nearby small fishing communities. Copes (1972) argues that departure from an isolated fishing village represents the first step in a movement up a hierarchy of places that leads from small isolated outports, through larger centres in the province and ultimately to the mainland (See Appendix Figure A4). This line of reasoning leads one to applaud the Resettlement Programmes for accelerating the natural process of development. Indeed, Copes argued that Resettlement should have been extended to cover all moves up the hierarchy, even relocations outside the province. This recommendation met with little favour in policy circles. Adoption of such a recommendation in 2002 would serve only to accelerate the current ageing and decline of population in rural areas, which the Economics and Statistics Branch (2002a) views as cause for concern.

While Resettlement undoubtedly helped to economise on the provision of public services, it did little to fundamentally alter the industrial mix of the economy. The fishery remained king through the 1960s and 1970s. Mineral finds, hydroelectric projects, and, by the late 1970s, the discovery of offshore oil led to much optimism that resource wealth could help to diversify the provincial economy and provide sufficient employment. Too often, concessions were made to the developers of resources that limited the impact of discoveries to a temporary boom during a construction phase. Few of the resource rents (excess in the value of deposits over the costs of development and extraction) flowed to the province. Newfoundland and Labrador never managed to harness its resources toward even a meagre public savings programme. It is widely recognised, especially in the context of the Upper Churchill hydroelectric development, that potential benefits to the province have been lost. While there is little that can be done to recapture these benefits now, it is worth being mindful of the lessons of the past. Economists would argue that the most efficient way to harness the rents from natural resources is to tax the economic rents they generate. These rents are maximised when the least costly methods of extraction and processing are used. A cash flow tax can be used to capture the rent. Local preference policies run the risk of increasing costs and wasting rents. The dollars of lost profit used to secure five or six construction jobs might generate enough tax revenue to hire eight or 10 health professionals, for example. The ability of the Province to capture these tax dollars is limited, however, by the clawback of entitlements under the current Equalization programme.[7] Perhaps the only way to keep any rents in Newfoundland and Labrador is through payments to local suppliers, but this is surely done at a loss to the combined federal and provincial coffers.

The persistent lack of employment and wealth generation in Newfoundland and Labrador gave rise to much study and analysis. In 1980, the Economic Council of Canada released a study of some 200 pages in length, documenting the salient characteristics of the economy. As Feehan (1991) noticed, its 25 recommendations were hardly commensurate with the depth of its analysis. On the question of population, the Economic Council argued that out-migration from the Province be neither encouraged nor discouraged, that job creation efforts not be concentrated on the outports when they could feasibly be targeted toward larger centres within commuting distance from outports, and that public services be located at the nodes of the urban hierarchy; that is, located near the Trans Canada Highway.[8] These recommendations expressed a belief in the benefits of agglomeration, and, perhaps, an echo of Copes's (1972) view that policy should reinforce the dynamics that the private market had unleashed. Peninsulas were replacing bays, why not formulate policy consistent with that fact?

A decidedly different stance was taken by House (1986) in the report of the Royal Commission on Employment and Unemployment. The Commission's recommendations, numbering 242, were supportive of small-scale, community-based development initiatives. The mega-projects of the previous decades had not produced lasting benefits, so a new approach was needed. While none of its recommendations made direct mention of a desired distribution of population, many were targeted explicitly toward rural areas.[9] Moreover, there is almost no mention of migration in the report, except to comment on migration as one of the determinants of labour supply, and to comment on the potential for housing price collapses in the event that a one-industry town shuts down. The solutions to the province's economic woes, the House Commission argues, are to harness the skills already embodied in rural Newfoundland and Labrador and to find ways to increase their value added. Fish products, skilled handicraft, tourism and secondary processing of natural resources hold the key to rural development. Policies to enhance local entrepreneurship, combined with aggressive marketing of Newfoundland and Labrador products and services, would build the economy, especially the rural economy, from the ground up. The fishery, it argued, would remain a vital source of income in rural Newfoundland and Labrador. This income (and additional government initiatives) would provide start-up capital and fuel demand for nascent local industries. The policy advice for the resource and industrial sectors of the province included local preference policies at every turn. Implicit in this advice is a belief that spin-offs (linkages) are important to maximising the benefits from these sectors. If linkages do not exist, local preference might be a way to create them. Thus, the Commission appears ambivalent on issues of agglomeration. It appears to accept that economies of scale and scope exist in some sectors, but argues that Newfoundland and Labrador would be better served by concentrating its development efforts on sectors that are not characterised by strong forward and backward linkages. The collapse of the groundfish stocks and reform of the Employment Insurance system reduced the pre-requisite local income needed to nourish the local development initiatives of the House Commission. The impact of the Economic Recovery Commission, which operated from 1989 to 1996 with House as its chair, is yet to be measured. Whatever its effect, it did not stem the recent exodus from rural Newfoundland and Labrador.

The emphasis on local initiative and small scale entrepreneurship continues in policy circles. A recent study of the options for rural Newfoundland and Labrador (Government of Newfoundland and Labrador, 2001) stresses the need for the maintenance of a good business environment, education and training, regional partnerships and community development.

Several key sectors, including a diversified fishery, aquaculture, petroleum, tourism, and cultural industries, are singled out as possible engines for growth. While local preference for the processing of mineral resources is reiterated, policy recommendations for the petroleum sector include a close look at royalty policy and a need to balance local preference with international competitiveness. Outside investment complementary with existing opportunities, the report states, is to be encouraged. The guiding principles seem to be gradualism, realism and linkage — a House Commission updated in light of new realities.

Policy-Making for a Smaller, Older Population

Can Newfoundland and Labrador cope with the expected increases in the ratio of individuals out of the labour force to individuals in the labour force? If this were the extent of the policy challenge posed by the latest demographic trends, then the answer would be a resounding yes, because the province has coped with high dependency ratios before. In 1971, the ratio of total population to population aged 20-64 was 2.20; in 2002, it is 1.56.[10] Denton et. al. (2000, p.44) project that this measure of the dependency ratio will not reach its 1991 value until after 2021, and will not even reach the 1971 level by 2046, the end of their projection horizon. Denton and Spencer (1999) argue that, at the national level, there is no impending crisis of increased dependency or ageing-induced increase in public expenditures. They project overall demands on the public purse to grow no faster than the rate of population growth. The composition of public expenditure is likely to change, but ageing is gradual and policy should be able to adapt.

In fact, Denton and Spencer (1999) express more concern for the possible effects of ageing on aggregate productivity than for its impact on aggregate consumption and public services. A shrinking labour force (which, in Newfoundland and Labrador is accelerated by migration) should decrease unemployment and perhaps result in increased wages. The Economic and Statistics Branch (2002a) points out that, because migrants tend to be younger and more skilled, the average skill level of the Newfoundland and Labrador labour force might fall. If these skills are not replaced by upgrading the human capital of those left behind, wages and economic growth might decline. The net effect on average earned income (and average tax collections from this income) is difficult to predict.

While increased dependency ratios may not be a major concern, there are dangers to complacency, especially in Newfoundland and Labrador with its accelerated rate of demographic change. The public sector will have to adjust to a different clientele. The Economics and Statistics Branch (2002a) has identified several potential consequences of the recent and projected changes in the demographics of the province. All else equal, an ageing population increases the demand for health care and long-term disability payments, but reduces the demand for education and social assistance payments. Older people are also less likely to commit crime, and may demand a different style of public housing than the family-style units widely utilised at present. The largest single expenditure item for the provincial government is health care, comprising some 44 per cent of the program budget in 2001/02, with expenditure growth projected at about five per cent per year for the next 27 years (Economics and Statistics Branch, 2002a, pp.12-14). Education is the second largest expenditure item, and one might expect a drop in the school-age population to provide an opportunity for a reduction in spending on education. But realising these gains may be difficult due to the large fixed costs of school buildings, and increased participation rates in post-secondary and adult education. Fundamental reform of the school system has already taken place, and costly duplication of services has been reduced. Short of a return to the one-room school, there seems to be no major policy initiative that can dramatically reduce costs. The effects of changes in other, smaller programme areas are unlikely to have a large impact on the fiscal situation. Population decline and ageing bring little good news for the provincial balance sheet: increased expenditure (primarily on health) and few revenue gains. There is even reason to expect that equalisation payments, which are based on total population, will fall.

Restraining medical expenses is difficult, but a brief foray into the history of medical costs might help to highlight some options. Evans et. al. (2001) report on a study of health expenditures in British Columbia. They find that increases in health care expenditures per capita since the late 1960s cannot be accounted for by changes in demographics, but by increased expenditure within each age category. Increased use of physician services and the rising costs of pharmaceuticals are the underlying causes of the recent crisis in medical budgets, not an ageing population. Shifting to less physician intensive forms of treatment (home care, or increased use of nurse practitioners) would attenuate the rise in doctor's bills. Greater use of generic drugs and requiring more stringent evidence of pharmaceutical effectiveness before adopting new remedies might help reduce the cost of medicine. Cuts in public health care, either by reduced total health care quality or significant private sector involvement, are likely to have a disproportionate impact on the poor. A justification for these cuts cannot be found, they claim, in "apocalyptic demography."

Municipal governments, many already under severe financial strain, will be affected by demographic change. In areas with declining populations, the demand for water and sewer services will fall. On the other hand, property values (the municipal tax base) are likely to fall. Given the large fixed costs of many municipal services, it is possible that shrinking bases will dominate reduced variable costs, and threaten the very existence of some smaller municipal governments. Evidence on the general question of economies of scale in the provision of public services is mixed. For example, Byrnes and Dollery (2002) argue that there is no consensus on the existence of economies of scale in the provision of public services. For larger municipalities, there may indeed be diseconomies of scale. For smaller municipalities, like many in Newfoundland and Labrador, economies of scale seem more plausible. Kitchen and Slack (2001, p. 22) present evidence from Canada's North indicating that its, primarily smaller, municipalities face per capita costs significantly in excess of the national average.

Local governments will have to find ways to spread fixed costs (for example, amalgamation and sharing equipment) and risks of disastrous events, such as the costs of crises in water supply management. Kitchen and Slack (2001) make an important distinction between contiguous small municipalities and remote municipalities. The former are better able, they argue, to share infrastructure and enter into agreements for the mutual provision of services than the latter. The peninsular structure of settlement in Newfoundland and Labrador provides a natural way to organise municipalities into reasonably contiguous groupings. Settlements lying outside the major peninsulas are less likely to find partners with which to share costs and risks. The options for financing services are more stark in these areas. The province could assume responsibility for basic municipal services, effectively dissolving some municipalities. Alternatively, remote areas could receive higher per capita grants from the province.

Those who downplay the potential hazards of demographic change tend to argue for piecemeal policy solutions. A careful examination of educational requirements is needed to sustain educational quality. Problems in healthcare are best addressed within the healthcare system. There is merit in making each programme as efficient as possible, but is there not also merit in altering demography?

A Role for Demographic Policy

The hallmark of a policy analysis by an economist is a discussion of equity and efficiency. Economic efficiency entails a state of affairs in which no one can be made better off without making someone else worse off. But who counts as a "someone"? Should the provincial government, say, be solely concerned with Newfoundlanders and Labradorians? If so, who are Newfoundlanders and Labradorians? Current residents? Expatriates? Potential migrants? If an entrepreneur heads for the mainland to increase profits (and employ people on the mainland), should policy makers be satisfied with this improvement or mourn the loss of jobs and local tax revenue? Some policies that have merit from a global point of view might be disaster for some groups. It is important to be clear on this issue before any policy recommendations can be made.

From the world perspective, there are at least four possible justifications for policy concern over where people reside. First, there may be some intrinsic value placed on the demographic profile. A large population may be good for its own sake, or there could be value in a thriving rural society. Second, there may be some reason to believe that the allocation of people to places is not the best possible. Third, demography might have a significant impact on productivity or economic efficiency. Fourth, relocation might find some justification on equity grounds.

If one bases policy judgements on a respect for individuals' own evaluation of their circumstances, rather than on paternalistic notions, it is difficult to argue for policy aimed at residential location *per se*. If some people are happy in St. John's or in Ontario, it seems absurd, even hypocritical, for a policy maker in St. John's to prefer that they live in Pleasantview, Notre Dame Bay.[11] There might be an argument for preserving rural life, even if many of the people currently living that life would choose to leave it. Once a community disappears from the map, it is highly unlikely that it will ever be re-established. Some people might derive benefit from the existence of such communities, even if they do not reside there. Perhaps people who have left a community would like to keep alive the option of returning, for them or for their offspring. Others may value the potential to leave urban life in retirement. For these, it is more important that some settlements remain viable, not that all settlements remain viable. There are measurable benefits to a thriving rural society, through tourism. Except for visits home by expatriates, this industry is based on the existence of some rural communities, not all.

If people are free to move, as Newfoundlanders and Labradorians most certainly appear to be, a household makes its residential choice after carefully weighing all its options. It makes the best decision it can, given its resources and information. It is difficult to imagine a government decision-making body that could match people to their desired locations as effectively as people themselves can. But there are reasons to believe that external benefits and costs, which do not enter into family decisions, might be at play. Additional families might convey costs of congestion — noise and traffic are obvious examples — on their neighbours. This type of externality, which is often used to argue that cities are too big, is not a major concern in rural Newfoundland and Labrador. In a world of agglomeration economies, individual families do not reap the entire benefit of their residential decisions. The added commercial potential a household brings is not as important as the mortgage payments in deciding on a new home. Further sources of external benefit include the potential to spread the costs of local public services among more families. The balance of the externality argument for market failure in residential markets points towards too little concentration in Newfoundland and Labrador, not to too much.

But is it not simply unfair that some members of society are stuck in declining communities, far away from hospitals, with dwindling educational resources and out of reach of cultural amenities? With houses of limited resale value, these people can hardly be expected to move to St. John's or Grand Falls-Windsor. Perhaps the arguments for a policy response to demographic change are based on notions of fairness and equity. Certainly, the rationale for public healthcare, one of the sectors whose fate is often tied with demography, is largely based on equity arguments such as entitlements from citizenship.

Given that many of the highly valued public services (notably healthcare and education) are administered by the Province, the provincial government does have an interest in the demographic structure of the province. The case for economies of scale in the provision of public services has already been made. Moreover, the population serves as an important input into the provision of public services. The provincial government's ability to hire suitable employees is certainly affected by their supply in the province. Ensuring a supply of professionals to rural areas is especially difficult. The challenges are not new. Some four decades ago, Wells (1960, p.6), observed:

> It has been found that many trained teachers are loathe to serve in small communities, and this attitude is unconnected with salary scales. When one considers the inconvenience and lack of facilities to be encountered in some of our more isolated outports, it is not entirely unreasonable. Furthermore, doctors practising in isolated areas do so at considerable disadvantage to themselves and their families.... Such factors ... mitigate against the successful provision of educational and social facilities in isolated areas.

The impact of an exodus of skilled workers on the public sector could be grave. Provincial policy makers need to be aware of the need to prevent such an exodus.

Lessons From Elsewhere

Newfoundland and Labrador is not alone in facing economic troubles and demographic changes. Economies elsewhere have faced and (at least partially) overcome similar challenges. New Brunswick experienced significant economic transformation in 1980s and 1990s.

Saskatchewan has experienced ageing and out-migration for decades. The province can look to these regions for guidance.

The foundations of the success of the New Brunswick economy throughout the 1990s were call centres and natural resources (Savoie, 2001). New Brunswick enjoyed a growth in real income and a reduction in unemployment relative to the national average. Call centres flourished in New Brunswick, in part, due to the already intact telecommunications infrastructure and bilingual workforce. The backward linkages were strong. The market for the services of call centres is diffuse, so forward linkages are not particularly important in their location. Given the insights of the New Economic Geography, it is difficult to imagine a better platform for economic growth. Still, people did not flock to New Brunswick in response to the relatively buoyant economy. During 1971-1981, population in New Brunswick grew at roughly three quarters of the national rate of population growth. Population growth in 1991-2001 was less than one tenth of the national rate (Statistics Prince Edward Island, 2002, p.2). Moreover, New Brunswick, like Newfoundland and Labrador, failed to attract even one-half of one per cent of immigrants to Canada in each of 1987 and 1997 (Savoie, 2001, p.129). It takes more than a well-targeted industrial policy, it seems, to raise the population of small, Atlantic Canadian provinces.

Declining rural populations have been experienced by Saskatchewan since the 1950s (ACRE, 2002b). Increasing concentration of commerce and services in larger centres has been evident since the early 1960s. Stabler and Olfert (1996), building on the research of Stabler et. al. (1992), catalogue the loss of rural services in Saskatchewan. They suggest that the evolution of communities resembles the action of a sifter. With few exceptions, communities have tended to move down a hierarchy of trade centres.[12] In 1995, Saskatchewan had less than one-quarter of the complete shopping centres (the third rung on the hierarchy) it had in 1961, but had nearly twice as many minimum convenience centres (the sixth and lowest tier of the hierarchy). The top two rungs of the hierarchy had the same communities, Regina and Saskatoon, for the entire period from 1961 to 1995. The challenge for rural Saskatchewan was a struggle for existence, not a struggle for growth.

The Government of Saskatchewan responded to the decline in rural services by constituting an Action Committee on Rural Economy, ACRE. It was mandated to study rural Saskatchewan and report on the options for rural renewal. Among its reports was a series of community profiles (ACRE 2002a), chronicling efforts at community development. While the details of development differ from community to community, a number of common themes emerge. ACRE (2002a) emphasised that most successful initiatives were truly local, in origin and financing, and tended to be small scale. Often, success was precipitated by partnership between a community and its outlying region. The towns of Eston and Leroy started their renewal with renovations to local recreational facilities (with considerable finance through donations) in an effort to raise community spirit and attract young families. The final report of the Action Committee highlights that rural renewal will be "at least a 20 year project" (ACRE 2002b, p.33). No quick fixes are advocated. Instead, the recommendations call for a slow process of encouraging local business, instilling new, positive attitudes into residents, and building incomes, jobs, and economic linkages from the ground up. Rural Saskatchewan, it argues, will not be best served by waiting around for governments or outside investors to pump money into it. Lorne Johnson, Mayor, Town of Eston, summarises the sentiment this way: "If a company can move in they can just as easily move out" (ACRE 2002a, p.3).

A Notable Exception

While most regions are facing drastic erosion of population, the decline is less severe in the St. John's region. In fact, the forces of agglomeration that appear to be pushing people out of much of Newfoundland and Labrador seem to be working to enhance the attractiveness of the Northeastern Avalon. Is this just a movement to the penultimate rung on Copes's hierarchy (cf. Appendix Figure A4), with an exodus to the mainland inevitable? Or is it evidence of an agglomeration able to compete on a world stage? The fact that the capital region experienced a decline in population during the 1990s might lead one to conclude that St. John's, too, might be fighting a losing battle for growth and population. More recent news has been encouraging, though, as output, income and population all increased from 2001 to 2002 (City of St. John's, 2002). Moreover, St. John's occupies the same space in the urban hierarchy of Newfoundland and Labrador that Regina and Saskatoon do in Saskatchewan. The persistent strength of these two Prairie cities provide reason for optimism in the provincial capital. Just as actively encouraging otherwise questionable economic activity in rural areas is a dangerous game, explicit policy preference for businesses locating in St. John's is not recommended. It might not even be necessary. Among other things, increased migration to St. John's would amplify the financing crunch faced by municipalities in the rest of the province.

Conclusions

From a global (or even national) point of view, outward migration from Newfoundland and Labrador can be viewed as a natural response to more promising economic opportunities elsewhere. Those who move do so with a view to increasing their well-being and in so doing reduce the labour surplus in the province, and perhaps contribute to efficiency-enhancing agglomerations on the mainland. This caricature of the migration process ignores important equity issues. Women tend to not gain as much as men from moving to a new province, if at all. Those who remain tend to be the older and the poorer members of society. Of those who return, many do so because they could not find employment on the mainland. While economic growth and the creation of new opportunities in Newfoundland and Labrador will undoubtedly attenuate population decline, the New Brunswick experience suggests that the effect is likely to be modest. Given the emphasis on local initiatives and steady, sustainable development in recent economic policy, it is difficult to imagine an impending boom in population. In the medium term, population ageing and the loss of rural population is inevitable.

Economic forces appear to be at play in stimulating outward migration and in influencing the choice of recipient provinces. Yet, they do not tell the entire story. Newfoundland and Labrador has not emptied in response to decades of relative economic disadvantage, nor is it likely to empty in the foreseeable future. Many families choose to stay in Newfoundland and Labrador when they (or at least some members of the family) could have better job prospects elsewhere. This attachment to place and culture is not irrational. If families were forcibly removed from their homes, the resulting loss of this sense of place would be a real cost to them, and needs to be weighed against any gains due to agglomeration or reduced costs of public services. While it is perhaps unduly optimistic to predict a great boom in the provincial economy and a surge of inward migration, it is equally pessimistic — and perhaps simplistic — to argue that (rural) Newfoundland and Labrador is unviable.

There are two strands of argument pointing toward policies that might reverse recent trends in demographic structure. One is that enhanced economic opportunities in Newfoundland and Labrador would tend to slow outward migration. Population stability, in essence, is a sign of economic stability. Conversely, population structure influences economic growth. But population policy is a very coarse instrument for development policy. Even if a government could entice families to move to designated areas, how would it keep them there or entice them to move yet again as policy objectives change? Other arguments are based on equity. Is it fair for Newfoundland and Labrador to bear a disproportionate share of the increase in healthcare costs brought on by national ageing? It is destined to do just that if it continues to age more rapidly than the rest of Canada. Why should rural communities experience a decline in the quality of their hospitals, schools and local services? They will if populations and tax bases fall below levels needed to sustain local infrastructure, and if the thresholds for supporting local services cannot be lowered. They will continue to do so if qualified medical and educational professionals cannot be retained or replaced. Is it equitable that young Newfoundlanders and Labradorians must start their careers and families far away from their parents and extended families? They will continue to do so unless job opportunities are to be found close to home.

In view of the evidence summarised here, the following recommendations to the Royal Commission are advanced. They are directed primarily at the Government of Newfoundland and Labrador. This is based on a view that the sectors of public responsibility most affected by demographic change are areas of provincial jurisdiction. Moreover, the connections between community development and population structure suggest that provincial and sub-provincial decision makers are likely to be the agents of change in demographic characteristics. An important caveat to these recommendations is that their scope does not extend to coastal Labrador, which has a unique demographic profile.

Recommendations

1. Active intervention in population settlement, for example, the resettlement of communities, is not encouraged. Past experience with resettlement policy suggests that even if suitable sites for nascent agglomerations can be identified, moving people to such growth centres is difficult. Interfering with private residential choice violates principles of freedom of choice. Moreover, a post-policy distribution of population is likely to be unstable if people are free to move again. Government assistance to initiatives proposed by communities themselves is more likely to be effective.
2. Access to public services requires that all aspects of public infrastructure be located in regional service centres, with well-maintained road connections from smaller communities. The peninsular structure of settlement and transportation links that has

developed in Newfoundland and Labrador suggests this model of service provision. Due to concerns about bussing, schools might be more decentralised.

3. Measures to ensure the maintenance of municipal services should be reviewed. Possible innovations include creating an insurance fund to cover unforeseen, large demands on municipal budgets (for example, major cleaning of water supplies), or more sharing of facilities and equipment by nearby councils.
4. Municipal governments should identify initiatives that would help retain young adults, for example the upgrading of recreational facilities. Evidence from Saskatchewan indicates that community donations and fundraising can be used, where necessary, to complement municipal outlays.
5. The Government of Newfoundland and Labrador should clarify its commitment to community-based development so as not to confuse it with wasteful industrial subsidies. History has shown that attempts to foster economic growth by subsidising industries with few natural linkages to Newfoundland and Labrador are unlikely to succeed. Nor are explicit attempts to locate economic activities in rural areas with few natural linkages recommended. Community-based development, where successful, is a slow process of finding and exploiting local advantages. It might not even result in population increases. Community-based development should not be the decentralisation of a few industries with the hope that agglomerations might form around them.
6. The human capital lost through out-migration must be replaced by increases in the skills of those who remain. Adult education and re-training of older workers are to be encouraged. Given the likely affects of rural population decline on schools, the potential of distance education and on-line resources should be examined. This course of action is not costless, but it is one that all of the competing theories of economic activity surveyed in this report point toward. No matter what the underlying economic forces, an economy with more resources, in particular more human resources, fares better.
7. The province should seek to retain a higher proportion of its high school graduates who seek post secondary education. Likewise, it should try to attract students from other provinces. Scholarships, bursaries and a general reduction in the cost of post-secondary education in the province would help to achieve this goal. In addition, Memorial University should publicise its areas of strength more widely. Again, this recommendation is costly. Given the relative infrequency with which out-of-province students return home after study, keeping students at home might be easier than attracting recently educated young professionals from elsewhere.
8. Every effort must be made to economise on the costs of healthcare. In concert with the other provinces, an examination of the costs of pharmaceuticals and the appropriate mix of medical professionals should be carried out.
9. Any attempt to attract skilled workers to Newfoundland and Labrador should be made with the knowledge that migration decisions are family decisions. It is much easier to attract families when all members benefit from the move. Thus, the race to attract professionals will be won by regions with a diversified set of professional opportunities (so that both spouses might find employment) and adequate recreational and educational

facilities. The establishment of regional service centres (cf. recommendation 2) would provide a basis for this strategy.

Endnotes

[1] According to Leacy (1983), the 1951 Census of Canada recorded a population of 361,416. The Economics and Statistics Branch (2002a) reports a provincial population of 580,195 in 1993, and a population of 521,200 in 2001.

[2] Migration from Newfoundland to the mainland was prevalent before Confederation, too. Indeed, Reid (1980, p. 40) reports that out-migration from Newfoundland represented 40 per cent of the natural increase from 1900-35, and about 25 per cent of the natural increase in 1945-76. In both time periods, this represents about five per cent of the population.

[3] This feature of net migration was noticed by Copes (1972) for the period from Confederation until the early 1970s, and is also evident in more recent years. Particularly large rates of net out-migration from Newfoundland and Labrador were observed in the early and late 1970s, and the mid-to-late 1980s.

[4] Copes (1972) was among the most vocal of proponents of encouraging a shift away from the inshore fishery, even to the point of encouraging net migration from Newfoundland and Labrador.

[5] Reid (1980, p.21) compares the urbanisation rate of various urban systems in 1976 and finds that the St. John's urban system, comprising most of the island of Newfoundland, was comparable to the Regina-Saskatoon urban system, and roughly 40 per cent less urbanised than Iceland at the time.

[6] A summary of the operation of various programmes is found in Copes (1972, pp.101-113).

[7] An anonymous referee offered this suggestion, for which the author is grateful.

[8] The complete list of recommendations is found in Economic Council of Canada (1980, pp. 161-163).

[9] Aside from Chapters 10 and 11 — dealing with Community and Regional Development and Small Enterprises, respectively — of the report, which contained a total of 29 recommendations, 12 further recommendations made special mention of rural or isolated areas. None of the other 201 recommendations made special mention of urbanised areas, except in reference to a localised resource or opportunity.

[10] These dependency ratios are the author's own calculations, based on information published by the Economics and Statistics Branch (2002b).

[11] The population of Pleasantview is approximately 76 (Point Leamington Academy, 2001).

[12] Out of 411 reclassifications of communities at some point in their study, only 33 were from a category with lower services to one with higher services (Stabler and Olfert, 1996, p.17).

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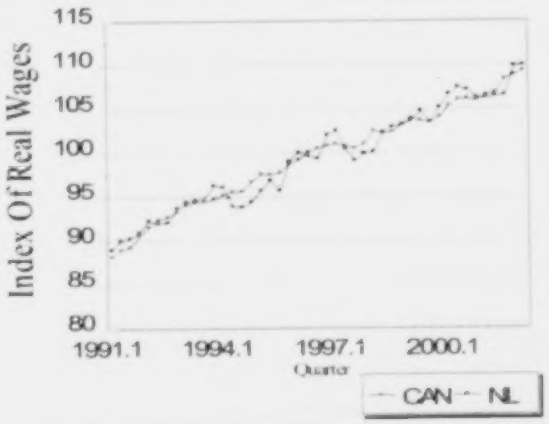
Appendix

Figure A1. Recent Migrants In Canada

Province or Territory	% of 2001 residents who lived elsewhere in Canada in 1996	% of 2001 residents who lived outside Canada in 1996
Newfoundland and Labrador	3.3	0.5
Prince Edward Island	6.3	0.9
Nova Scotia	6.2	1.1
New Brunswick	4.8	0.6
Quebec	0.9	2.0
Ontario	2.3	4.9
Manitoba	4.1	2.0
Saskatchewan	4.7	1.0
Alberta	8.8	2.9
British Columbia	4.1	5.4
Yukon Territory	14.0	1.6
Northwest Territories	16.8	1.5
Nunavut	10.8	0.5

Source: Statistics Canada, Census of Canada 2001.

Figure A2. Real Wages in Newfoundland and Labrador and Canada



Source: Statistics Canada, CANSIM II, Table 281-0039

Figure A3. An Upstream-Downstream Production Process

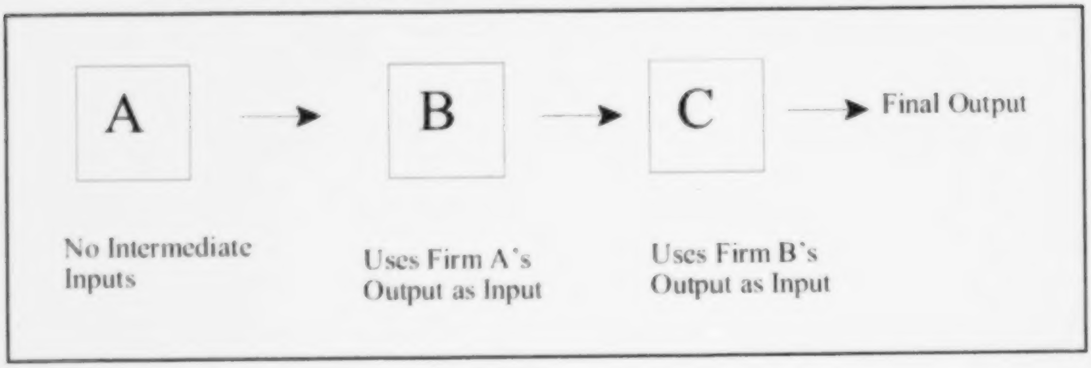
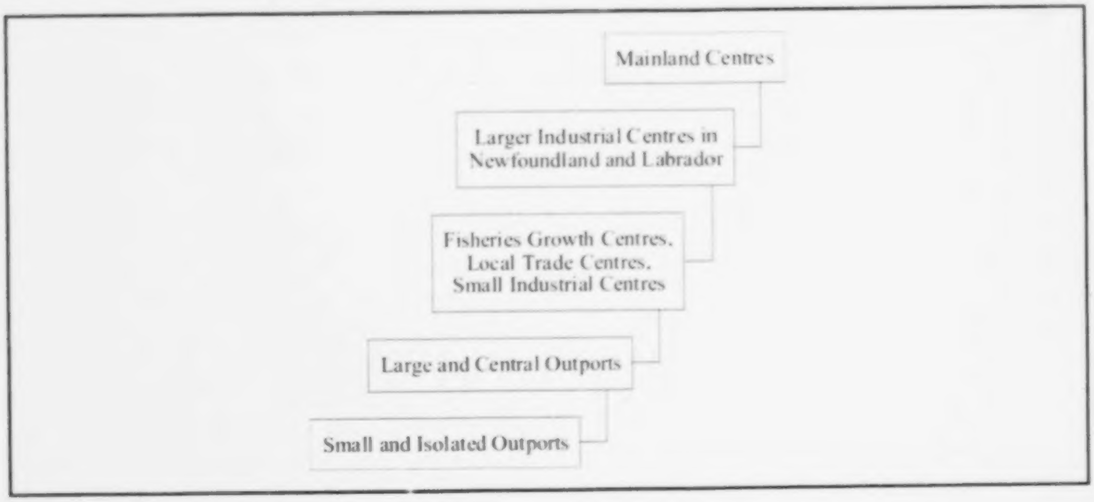

A
B
C
Final Output
No Intermediate Inputs
Uses Firm A's Output as Input
Uses Firm B's Output as Input

Figure A4. Copes's Hierarchy of Settlements


Mainland Centres
Larger Industrial Centres in Newfoundland and Labrador
Fisheries Growth Centres, Local Trade Centres, Small Industrial Centres
Large and Central Outports
Small and Isolated Outports

Based on Copes (1972, p. 114)

Royal Commission on Renewing
and Strengthening Our Place in Canada

Small, Isolated and Successful: Lessons from Small, Isolated Societies of the North Atlantic

— Lawrence F. Felt

February 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Executive Summary 93
Introduction 97
Organization of Presentation 97
Newfoundland and Labrador, 1949-2002 98
The Folly of Patrimonial Development (1949-1970) 98
State Building and Balanced Development (1972-1986) 101
Crisis and Hope, 1992-Present 103
Åland Islands 108
Faeroe Islands 110
Greenland 114
Iceland 117
Ireland 124
Conclusion and Recommendations 125

Endnotes 131
Bibliography 132

Executive Summary

The small, isolated societies of the North Atlantic are frequently suggested as a useful basis of comparison for the Canadian province of Newfoundland and Labrador. Given the considerable economic success many have achieved, there is great temptation to 'borrow' useful programs and policies of potential relevance to this province. The sociologist Peter Berger once described a society as the collective walls of a people's imprisonment in history. This paper takes a less limiting approach seeking to simultaneously instill an appreciation of these societies' diverse histories and the potential constraints this poses while attempting to glean possible 'lessons' for this province. Following an abbreviated social, cultural, political and economic history of each, the paper cautiously concludes with a number of potentially relevant areas for change both within the province of Newfoundland and Labrador as well as between this province and the Canadian society of which it is a part.

The paper outlines 15 potential 'lesson areas' in its conclusion, preceded by the caution that their utilization cannot be a simple 'cut and paste' but requires an adaptation consistent with the 'walls' of our own society. I have not listed perhaps the most obvious lesson since it is more an observation than an area for policy or program consideration. This is, of course, that small populations, geographic location or even limited natural resources need not impede successful growth and development. This is not to say that these factors will not provide some initial areas of comparative advantage from which different development paths might grow. Icelandic and the Faroese fish as well as Åland's strategic location were critical to these societies' initial development even though each has diversified extensively over the last 30 years. Iceland, in particular, has demonstrated considerable success in its movement into expert service industries and technologically driven manufacturing in support of marine resource development.

The 15 lessons of potential relevance are listed in the table below. No attempt has been made to rank or order them beyond perhaps the first one. All societies reviewed possess export-driven economies greatly affected by changes in the global marketplace, be it a market place for fish or tourists. As such, a clearly identifiable and superior product able to compete favorably in an increasingly global context drives each society's quest for higher standards of living for its citizens. How such a condition is met varies considerably across the societies. Some of the proposed lessons probably require minimal change in Newfoundland and Labrador; others may require some level of institutional and cultural change of a level to pose significant challenges for past and present policies. Ultimately, only the people of this province can choose which lessons are relevant and what changes, if any, are acceptable.

The lesson conclusions are contained in the Table below. The paper provides an appropriate context and commentary for each in terms of its potential relevance for the province.

Conclusions/Lessons from Small North Atlantic Societies

Conclusion 1. 'Competitiveness' and market performance are critical determinants of success.

Conclusion 2. Promote smallness.

Conclusion 3. Control over marine resources is necessary but not sufficient.

Conclusion 4. Capacity to negotiate external trade agreements is essential.

Conclusion 5. Control over fiscal and monetary policy is important though not essential.

Conclusion 6. Tariff protection is an ineffective and impractical development strategy.

Conclusion 7. Stronger local government with a wide mandate is important.

Conclusion 8. High literacy levels are essential.

Conclusion 9. Re-conceptualize issues surrounding migration.

Conclusion 10. Control over transportation policy is important.

Conclusion 11. Selectively developed 'niche' manufacturing and service industries are important.

Conclusion 12. Extensive consultative structures are important.

Conclusion 13. 'Duty free' enclaves and related trade zones are useful strategies.

Conclusion 14. Short and medium term 'penalties' for economic success should be removed.

Conclusion 15. Citizens and governments alike must believe in their capacity to do things.

Table 1: Demographic, Political and Economic Characteristics of Small North Atlantic Societies, 2000

	Newfoundland and Labrador	Ireland	Iceland	Greenland	Faeroe Is.	Åland Is.
Population	539,214	3,840,838	283,361	56,352	46,196	25,776
Area Km²	112,299	70,283	103,256	2,175,600	1,399	1,526
GDP/per capita [a]	$21,274	$29,165	$28,658	$21,100	$25,143	$31,883
Household Income [b]	$31,731	$59,271	$56,821	$ N.A.	$44,861	$54,708
Unemployed	16.7%	4.1%	3.2	7.0%	2.5%	1.8%
Literacy [c]	71%	98%	100%	72%	78%	95%
Labour Participation Rate	59.8% M 56.2% F	78% M 69% F	83% M 74% F	74% M 59% F	77% M 63% F	81% M 72% F
Debt as % GDP	62%	43.1%	96.4%	51.1%	89.2%	3.2%
Primary [d] **Employment**	Services	Services	Commerce services	Fishing and related	Fishing and related	Shipping services
Secondary Employment	Trade	Industry	Manufac.	Gov't.	Construct.	Tourism
Tertiary Employment	Gov't.	Agric. Forest/fish	Fishing related	Tourism	Gov't.	Services
Government	Federation Canada	Independ.	Independ.	'Home Rule' [e]	'Home Rule'	'Special Status' [f]
Infant Mortality	5.2/1000	5.53/1000	3.01/1000	17.7/1000	1.7/1000	3.9/1000
Life Expectancy	75(M) 81(F)	74(M) 80(F)	78(M) 82(F)	65(M) 72(F)	75(M) 81(F)	79(M) 85(F)
Per Cent Urban	58.7%	62.3%	78.2%	48.5%	52.1%	67.8%

a All incomes has been converted to $US at Purchasing Power Parities (PPP).

b Household income is calculated somewhat differently in different countries. Should be treated as a 'rough estimate' only. Converted to $US but NOT at PPP.

c There is no one universally accepted definition of literacy. Proportion of adults with greater than Canadian Grade 8 or equivalent is used here.

d Definitions may vary from country to country regarding definition and categorization. Rough estimates only.

Sources: Canadian Global Almanac, 2002. Toronto: Macmillan Canada; **Canada Year Book, 2002** Ottawa: Statistics Canada; **The World Factbook 2001:** Washington, D.C. Country Reports.org 2002. Retrieved from www.countryreports.org/links/canada.htm; **Statistical Year Book of Ireland 2001:**Dublin: Ireland; **Statistics Canada 2002** retrieved from www.statcan.ca/english/Pgdb/; **The World Almanac and Book of Facts 2002**: NewYork: World Almanac Books. **Statistical Yearbook of Åland, 2001; Statistics Iceland, 2002** retrieved from **www.statice.is/, tables 15.1, www.statice.is/news/iceland.htm; Expo 2002 Greenland,** retrieved from **www.expo2002Greenland. Economy 2002: Newfoundland and Labrador; Estimates 2001: Newfoundland and Labrador; OECD (2002), National Accounts of OECD Countries, Main Aggregates, 1989/2000, Volume 1 and OECD (2001).**

" The enhanced mobility of capital, finance and labour in McWorld, a symbolic landscape of transnational corporations, seems to render territorial boundaries and distinctiveness increasingly meaningless.

Yet, from a most unlikely grouping of North Atlantic, cold water islands have come modest evidence of countervailing trends, of successful adaptive behaviour by small and apparently insignificant polities."

Lessons from the Political Economy of Small Islands. p. 241.

Introduction

Twenty years ago it was fashionable to see the march towards a world dominated by sophisticated networks of multinational corporations as relentless and unstoppable. Resisting was futile, if not undesirable. Better to embrace than be swept away! In more recent times, research and collective experience suggests relationships where globalizing processes and individual societies intersect are far more complex. Juxtaposed with homogenizing and integrating effects are emergent opportunities for economic advantage while preserving cultural, social and political independence. The term 'glocalization' (Courchene, T. 1995) has been offered to explain the complex interplay of local and global processes in a particular jurisdiction and the resulting array of economic constraints and opportunities that result.

The cold water, North Atlantic societies discussed in this paper have all experienced this global reach to varying degrees. While sharing important geographical, climatic, resource and demographic characteristics, some have achieved greater success than others in using their location and resources to create economic opportunities without significantly forfeiting those qualities which distinguish themselves from other places. Thus, comparisons focusing upon their respective approaches to social and economic development as well as responses to global challenges and opportunities can potentially provide advice and guidance to similar societies in their respective quests to build modern societies consistent with their histories and cultures.

The North Atlantic and its adjacent waters such as the Barent and North Seas are home to numerous small, geographically isolated societies. These vary from politically autonomous societies such as Iceland and Ireland, through an array of 'home rule' arrangements such as Greenland and the Faeroe Islands with Denmark, the Åland Islands with Finland to more integrated, federal units within larger states such as Newfoundland and Labrador. This paper examines a sample of seven such societies possessing sufficient jurisdictional capacity to meaningfully plan and implement their own economic development to some reasonable degree. These seven include Newfoundland and Labrador, Iceland, Åland Islands, Greenland, Faeroe Islands and Ireland. While six are island societies and the seventh, Newfoundland and Labrador, has an island portion, arguably their important shared characteristics are isolation, small size and North Atlantic location rather than their islandness per se. Table 1. summarizes several important political, demographic and economic characteristics of these societies.

Organization of Presentation

The presentation begins with a brief historical overview of Newfoundland and Labrador from Confederation with Canada in 1949 to the present. Her recent history is divided into several interrelated and to some degree overlapping phases emphasizing important social, cultural, political and economic features. Following this overview, each society is profiled starting with a brief historical overview, moving through important social, economic and political elements enabling and/or constraining their particular path to the present. The presentation cautiously concludes with an attempt to extract important similarities and differences between societies and examines whether useful lessons can be learned for Newfoundland and Labrador as a result of the comparative exercise.

An important caveat is here in order. The configuration of a society is a result of numerous factors, many of which are deeply embedded in its past and culture. Over the years, it has been all too fashionable to send 'fact finding' trips to North Atlantic societies perceived to be similar in order to discern 'what works that we could bring back here'. When prospects for oil and gas development arose in the early 1980s, seats on planes to Aberdeen or the Shetland Islands were at a premium as Newfoundland politicians, business people and policy analysts rushed there to look for lessons. In more recent times, Iceland's tourist industry has benefited from visiting delegations wanting to emulate their fishery policies. There may very well be potentially important 'lessons to be learned' from such visitations. Having said this, it is crucial to remember that societies are NOT interchangeable, standardized creations. Each is a product of a specialized history and culture reflecting the subtle interplay of internal and external processes (Sider, 1986 for an illustration for the island portion of Newfoundland and Labrador). Thus, what 'works' in one is far from a guarantee of success in the other. To give but one illustration, Iceland has experienced substantial **internal** migration to the larger major urban areas of the society over the last 90 years without conscious policy direction. The result is that its fishery has a decidedly urban presence with the largest plants found in Reykjavik, Akureyri and some of the larger settlements in the North West fjords. This concentration has been largely driven by governmental policy supporting efficiency, high productivity and economies of scale even if a result was greater urban growth and concentration. This poses a significant constraint when looking there for ways to revitalize and sustain a rural-based fishery in Newfoundland and Labrador.

Newfoundland and Labrador, 1949-2002

Any attempt to divide the history of a place into small, manageable 'chunks' is simultaneously useful and misleading. The intellectual gains of 'pulling out' a section of time for careful analysis are counterbalanced by the obvious observation that people, events and their temporal linkages are continuous, overlapping and recursive. Segmentation of an ongoing, recursive process is best considered an heuristic strategy with the hope that insights and understandings will outweigh distortions. With this warning, let me offer one potential characterization of a 'staged' history of Newfoundland and Labrador since Confederation in 1949. I use the term 'stage' rather than the more general 'period' to suggest that in some sense succeeding stages evolve from earlier ones. The sequence has three stages, each with different actors, events and development policy choices with varying degrees of articulation. The stages are: a) Patrimonial Development (1949-1970); b) State Building and Balanced Development (1971-1986); and, c) Crisis and Hope (1986-present).

The Folly of Patrimonial Development (1949-1970)

The Constitution of 1855, which provided for the province's first meaningful self-government, created a highly centralized regulatory regime in which power was concentrated in St. John's, political party organization was limited or non-existent between elections and elected politicians acted more like feudal patrons distributing spoils to their supporters. Newfoundland and Labrador's first Premier following Confederation, Joseph Smallwood, while incessantly decrying the excesses of this 'merchant dictatorship' was surprisingly adept at using such as system while simultaneously attempting to impose policies of modern infrastructural expansion and industrial development (Noel, 1974). Indeed, perhaps the most important lesson of the Smallwood era was the folly of trying to modernize social and economic institutions while maintaining political control through a quasi-feudal system. While it is obviously an exaggeration to characterize Newfoundland and Labrador as feudal in 1949, critical political and economic features more closely resembled that than an emerging modern state. Amongst these were a highly personalized and centralized political system characterized by 'patron-client' relationships (Cohen, 1967), a 'cashless' inshore fishery based on credit (Sider, 1986; Faris, 1972) and, aside from St. John's and the single industry towns of Grand Falls and Corner Brook, a highly rural population connected primarily by boat scattered amongst upwards of 1,200 settlements ranging from twenty-five to a thousand people.

Smallwood believed passionately in creating a modern industrial economy (Gwyn, 1972). Using funds flowing from her new status as a Canadian province, ambitious initiatives were undertaken initially in road construction. These were later extended to water and sewage facilities, school construction and other public buildings. After 1968, the infrastructure initiative was supported through emergent Canadian government programs designed to reduce regional economic inequality. So extensive were these public works that actual labour shortages emerged in many areas of the province with construction employment readily available in most regions of the province.

Another critical infrastructural component was electrical power. In the government of the day's view, stable and relatively inexpensive electricity was essential for any hope of industrial progress. Thus, in the early 1960s a substantial hydro development was initiated on the island portion of the province at Bay D'espoir. Shortly thereafter construction began on the mammoth Churchill Falls project (Smith, 1975), completed in 1972.

Efforts to promote both smaller manufacturing activities as well as mega projects at Come by Chance, Long Harbour and Stephenville during this period are well known and require little commentary here. It is useful, however, to briefly examine changes to the fishery during this period. While the oft-quoted statement by Smallwood to the effect that fishermen should 'burn their boats' is quintessential Smallwood hyperbole (if in fact it was ever said), the Premier of this period could also hardly be called the fishery's defender. His burning passion, espoused whenever the opportunity arose, if not to burn boats was to bring benefits of a modern, industrial society to the province. While Letto (1998) has maintained that Smallwood saw little role for the fishery in the future, this is something of an overstatement. To the extent that an industrialized, capital- intensive fishery could contribute, it was welcomed and sometimes even promoted as in building several modern fish plants at La Scie and other locations.

Throughout the 1950s and early 1960s, the inshore fishery continued though with somewhat smaller participation levels until 1978 as wage employment in construction and emergent industries provided higher paying alternatives. Profound changes in product, markets and technology transformed the industry (Alexander, 1977). The traditional export, 'saltfish' was rapidly replaced by frozen fish, particularly frozen block; household-based production increasingly superseded by industrialized fish processing plants with freezing equipment and small inshore 'trap skiffs' increasingly competed with first 'side' and then 'stern' steam-driven trawlers, both domestic and foreign. With the change to fresh and frozen fish, Europe and Caribbean product markets were supplanted by North American, particularly United States, ones. Neither provincial nor Canadian governments seemed disposed to modify this shift and, in fact, largely embraced it. Indeed, Alexander (1977) has argued that the Canadian government, in particular, fluctuated between benign neglect of the fishery to promotion of this new, 'modern' one.

Foreign interest, particularly by France, Portugal and Spain, in East Coast stocks of groundfish, particularly cod, increased dramatically during the latter 1950s and 1960s. While these European nations had fished at various times and with varying intensity off the coast for over 500 years, beginning in 1954 effort and catch began to increase dramatically. In that year, the first of the large 'factory freezer' ships, the ***Fairtry***, appeared off the coast. By the 1960s, stern trawlers had increased substantially in number. As a result, catching capacity and harvests grew dramatically, with the latter peaking at 810,000 metric tonne in 1968 before falling dramatically thereafter to 142,000 m.t. in 1978 (Hutchings and Myers, 1995). It is important to note that these figures are almost certainly underestimates given alleged high levels of discarding, 'highgrading' and misreporting.

These economic changes would contribute to important social and political change. Two are particularly pervasive in their ramifications: the fall of the patron-client political system and the rise of a 'new middle class' eager to embrace the culture and material benefits of a modernizing society. Both of these processes, and their interrelationship, are powerfully captured in the study of Springdale during the 1960s (Cohen, 1967). Since its formal Constitution in 1855, the Newfoundland and Labrador polity has been characterized by its high centralization of power among a small elite. Municipal legislation did not come to the province until the very end of the 19th century. Even today, municipalities are highly constrained, compared to similar jurisdictions elsewhere in their capacity. Politics was personal with rights and obligations occurring at both ends. All civil servants, and there were relatively few of them compared to today, served at the discretion of their political masters. Party affiliation and platform were secondary; you voted for 'the man' and were either rewarded or punished as a result. Each community had their own 'intermediaries' linking citizens to their political leaders. Given the minimal level of organization at the community level, non-political elites such as merchants, ministers or priests often played this role. Smallwood inherited this political system but arguably developed it to its highest level.

For admirers of Smallwood, his ultimate mistake was to believe Newfoundland and Labrador could be economically modernized while retaining an increasingly obsolete and contentious political framework. The new schools, increased government services and general economy created increasing numbers of better educated, young Newfoundlanders who increasingly wrestled with what, to them, was an obsolete and unresponsive political system. Their growth in numbers, combined with an unrepentant Smallwood, led to his eventual defeat in the early 1970s (for what is still arguably the best overview of the early Smallwood era see Gwyn, 1968).

State Building and Balanced Development (1972-1986)

The succession of Progressive Conservative governments led by Premiers Frank Moores and Brian Peckford as well as the first administration of Liberal Premier Clyde Well were characterized by their efforts in state building, creating a more balanced approach to development, particularly through expansion of oil and gas promotion, as well as efforts to craft a modern fisheries plan.

Despite the façade of an increasingly modern society, in many respects Newfoundland and Labrador as late as 1970 retained most of its cultural and structural links to its past. In no area was this more true that in its political organization. While the provincial public service had grown considerably during the 1960s in response to new federal programs and resources, clear lines of authority were frequently impossible to decipher and political intervention rampant. Jurisdictional boundaries were unclear and professionalism often sacrificed to political expediency. In the view of one analyst of the time, considerable erosion had occurred from the public service established under Commission of Government from 1932 to 1949 (late Hugh Whalen, personal communication).

The decade between 1975 and 1985 was an exceedingly optimistic one. New civil service legislation provided a legal basis for a modern state. Constitutional state-building, new efforts at economic diversification and the prospect of a revitalized fishery potentially offered new hope. The Churchill Falls Corporation, the actual producer of power, had been purchased at considerable cost by the provincial government. The government also initiated a court challenge of the original Churchill Falls power contract as well as its power recall provisions. In the late 1970s, sufficient discoveries of oil and natural gas was revealed in the offshore that ownership and control became a contentious issue. The province went to court to clarify its ownership of these resources. While the Supreme Court eventually sided with the federal government, it communicated a very clear message that a 'political' solution in which significant control and benefits should be negotiated. This led to the Atlantic Accord that continues to inform offshore development. Several challenges, legally and politically, were made regarding fisheries management as well. While the latter challenges were largely unsuccessful, the province was successful in its lobbying for jurisdictional extension to 200 miles as a result of severely depleted fish stocks and in 1977, Canada followed several other countries, most notably Iceland, in extending her management claims to that distance. Imbued with a newfound enthusiasm, both provincial and federal governments began fishery expansion and diversification initiatives directed towards creating a modern, sustainable fishery for the province (Wright, 2001).

In hindsight, the fishery initiatives appear to have been too much, too fast. The number of full time and part-time registered fishermen increased between 1974 and 1981 from approximately 7,500 to 10,250 and 9,000 to 14,000 respectively (Storey, 1993 p.96) or increases of 37 per cent and 56 per cent respectively. Groundfish licenses climbed from 5,800 to around 7,500 during the same period. Encouraged by various provincial incentive programs, fishermen were also using more and larger vessels. Smaller, inshore vessels less than 35 feet jumped in number from 12,500 in 1978 to 15,000 in 1980 before declining to between 11,000 and 12,500 throughout the 1980s and early 1990s. The midshore fleet, consisting of boats more than 35' and less than 65' also swelled from approximately 400 in 1968 to 1,200 in 1981 (Wright, 2001, p. 152; Sinclair, 1985). Particularly noteworthy was the growth in the larger vessels, 55'-64'. Even as late as 1987 only 34 vessels were registered in this class. Four years later this had climbed to 75 (Storey, 1993, p.103). This growth to some extent offset the decline in offshore stern trawlers utilized by Atlantic-based fishing companies which declined from approximately

118 in 1978 to 70 in 1991 (Storey, 1993. p. 105) though some of this latter reduction was also the result of a major reorganization of these companies in 1983 (Kirby, 1983).

Boat length alone is a misleading indicator of increased catch capability. Larger, more efficient engines enhancing mobility; electronic advances in sounders, net monitors, winches as well as new, more effective gear types such as Danish seines all greatly enhanced the 'fish killing' capability of all fleet sectors. As well, the ingenuity of fishermen led to common rebuilding of sterns and holds of vessels that allowed them to stay within length regulations while considerably enhancing catching and holding capacity. Overall, it is now generally acknowledged that the net result by the mid to late 1980s was to match harvesting capacity existent at the declaration of the 200 mile management zone. As a result, catches initially began to rise in 1978. Buoyed by what would later prove to be inaccurate stock growth estimations, catches, while displaying annual fluctuations (particularly in the near shore, <35' fleet) climbed to a high of 269,000 m.t. in 1989 (Hutchings and Myers, 1995. p. 58). Three years later, a moratorium was imposed on northern cod and several other stocks throwing estimates of between 22,000 and 37,000 harvesters and plant workers out of work.

Under the Terms of Union linking Newfoundland and Labrador to Canada, the province retains control over onshore processing of marine resources. As one would expect, similar patterns of growth are reflected in fish processing licenses for the province. Unfortunately, prior to 1980, statistics were not kept on species processed or type of processing i.e. whether primary or secondary. Nonetheless, substantial growth in the size, employment and processing capacity is visible from data available. In 1970, 53 plants were licensed to process fish; by 1985 they had increased to 212, peaking at 246 in 1992 (Kingsley, R. 1993. p. 127). Plants dedicated to groundfish processing had increased between 1980 and 1992 from 142 to 175 and processing throughput from 218,000 m.t. to 275,000 m.t. This increase in both harvesting and processing capacity reflected a growing general optimism flowing from the 1977 territorial extension as well as the Kirby Task Force (1983) struck to explore re-organization and expansion in Canada's East Coast fishery following a financial crisis of 1980-1982 (see also Sinclair, 1984).

Despite the collective enthusiasm and the real gains in oil and gas and the expanded fishery, all was not well in the province, particularly in the areas away from St. John's and the Northeast Avalon Peninsula. Several indicators revealed that Newfoundland and Labrador's capacity to create secure and reasonably-paying employment was not matching either government or public expectations. The province's official unemployment rate fluctuated between two and two-and-a-half times the national average; stock recovery, particularly of the valuable northern cod component, was not rebuilding as fast as expected, high levels of economic growth characterizing the 1970s had come to an end and careful analysis had revealed that employment growth between 1977 and the mid- 1980s resulted from expanded fishing employment (56 per cent) and the government sector (39 per cent) alone. In other words, 95 per cent of all job creation in the entire province had been a result of government and a single primary sector! (Carter, B. 1995. p.133). The millions of dollars funnelled through Rural Development Associations (RDA's) since the mid 1970s and the kaleidoscope of federal agency initiatives to create short and medium term employment had reaped precious few long term jobs.

Equally disturbing was the role of Unemployment Insurance (UI) in fishery-based incomes. Hollett and May (1993, p. 180) estimated that in 1988 as much as 46 per cent of fishing income was derived from UI benefits compared to 30 per cent from catching fish, approximately 17 per cent from income earned outside the industry and the remaining seven per cent from government transfers. Given government and public perceptions of unemployment insurance as a temporary insurance program rather than a form of ongoing income support scheme, such findings were deeply disturbing. Newfoundland and Labrador, and in particular rural Newfoundland, was mired in low income, low productivity and high dependence upon government transfers.

In early 1985, at least partly in response to the continuing difficulties plaguing rural Newfoundland, then Premier Brian Peckford created a Royal Commission under the chairmanship of Dr. Douglas House of Memorial University. The Commission's mandate was to "investigate all aspects of employment and unemployment in the province of Newfoundland and Labrador" (Royal Commission, 1986). Following widespread consultation and the sponsoring of a wide array of research, the Commission tabled its final report in September of 1986. The 500-plus page report and its supporting research documents arguably represent the most comprehensive examination of employment in the province. Among its most compelling recommendations were a) the establishment of an income security program to partially replace UI and remove disincentives to seeking employment; b) a process of building employment strategies from the 'ground up' involving local residents and tailoring policies to the various strengths, human and resource, communities and regions possessed; c) a revitalized inshore fishery linked to local resources and market reality; d) a refocusing of tourist programs away from copying other 'exotic' destinations to a 'made in Newfoundland' solution; e)instilling a revitalized sense of confidence amongst the people in their capacity to change opportunities; and, f) a need for integrated, strategic and collaborative planning by government to assess, identify and realize opportunities in small and medium size resource development as well as 'mega project' concentration. In the report and subsequent venues, the Commission chair argued for a new, integrated appreciation of the social and the economic for enhancing the quality of life in rural communities as well as the interdependence of urban and rural economies with the need to strengthen both (House, 1993. p. 222).

As the 1980s closed and the last decade of the twentieth century commenced, government accepted the Commission's report, endorsed most of it in principle and implemented relatively little. The Peckford government was mesmerized by oil and gas and exotic high tech projects such as hydroponic greenhouses. Moreover, it was at the end of its term and there were clear indications of a collective electoral desire for change unless some 'catchy' accomplishment could be paraded before the electorate. With few exceptions, fish landings declined, unemployment increased and the government looked to oil and gas development, seemingly made more possible by the signing of the Atlantic Accord in 1985, to provide a future path to prosperity. Despite some signs of improvement and a multitude of federal and provincial initiatives, historians are likely to look back on this period as one of good intentions but relatively few concrete results.

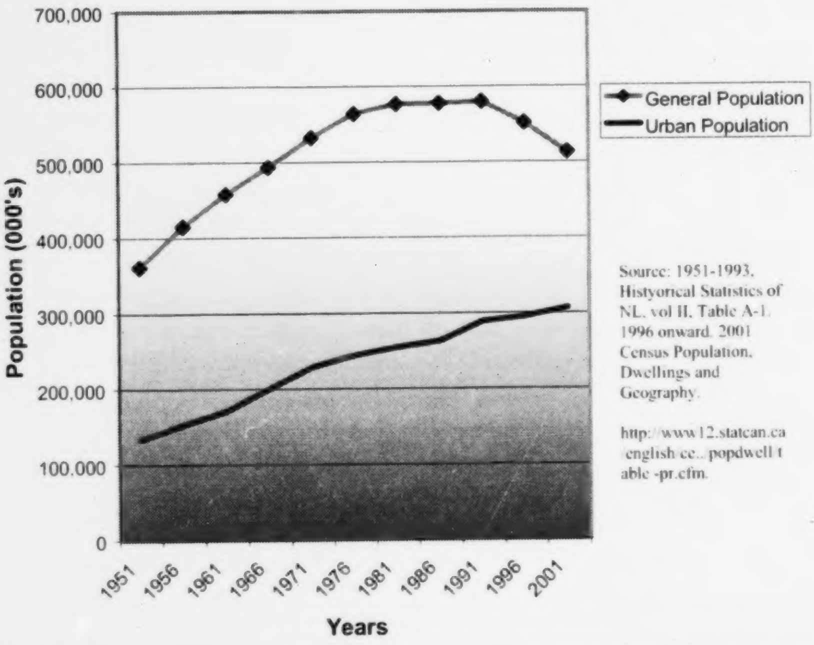
Crisis and Hope, 1992-Present

In 1988, lawyer Clyde Wells and the Liberal Party came to power. Within a year and a half, the government created the Economic Recovery Commission (ERC) to implement many of the ideas in the Royal Commission report. Reporting directly to Cabinet, both a benefit and a serious impediment in retrospect (House, 1999), the ERC was an innovative experiment in economic development policy. During its seven-plus year existence, it undertook a number of important initiatives and made numerous recommendations to government. Many of its ideas, if not specific recommendations, seemed to be reflected in subsequent government initiatives including a Strategic Economic Plan in 1992 emphasizing 'bottom up' consultative planning and a Task Force on strategies to implement the plan in 1995 (Government of Newfoundland and Labrador, 1995).

Despite the considerable good achieved through the ERC in the first half of its existence, including not least a new and different way to think of the meaning and process of development itself, the province, particularly its rural communities which comprised a majority of all residents, was overwhelmed by other events of 1992. In July of that year, the government of Canada closed the cod fishery off the province's Northeast coast, historically her richest marine asset. Shortly thereafter, catch restrictions and closures were imposed on several other stocks and species. Upwards of 35,000 harvesters and plant workers were immediately added to unemployment statistics. Initially, the closures were proclaimed to be temporary and a support program known as NCARP (Northern Cod Assistance and Recovery Plan) was introduced. Within a couple of years, as the stock collapses deepened, the program was widened and extended to include most of the island and Southern Labrador. Now called simply TAGS (The Atlantic Groundfish Strategy), it combined income support, educational upgrading, retraining and a variety of other initiatives for qualifying residents.

For the first couple of years of NCARP and TAGS, the majority of displaced workers remained in their community waiting for scientists to confirm their predictions that stocks would rebuild in two to five years. As time progressed and scientific assessments painted a continuing gloomy picture, more and more rural residents moved, typically to St. John's or some other near-by larger community and then to Central or Western Canada. For the first time in the history of island, Newfoundland and Labrador's population as a whole began to decline.

Chart 1 - Newfoundland and Labrador Population Trends



Source: 1951-1993, Histyorical Statistics of NL, vol II, Table A-1. 1996 onward. 2001 Census Population, Dwellings and Geography.

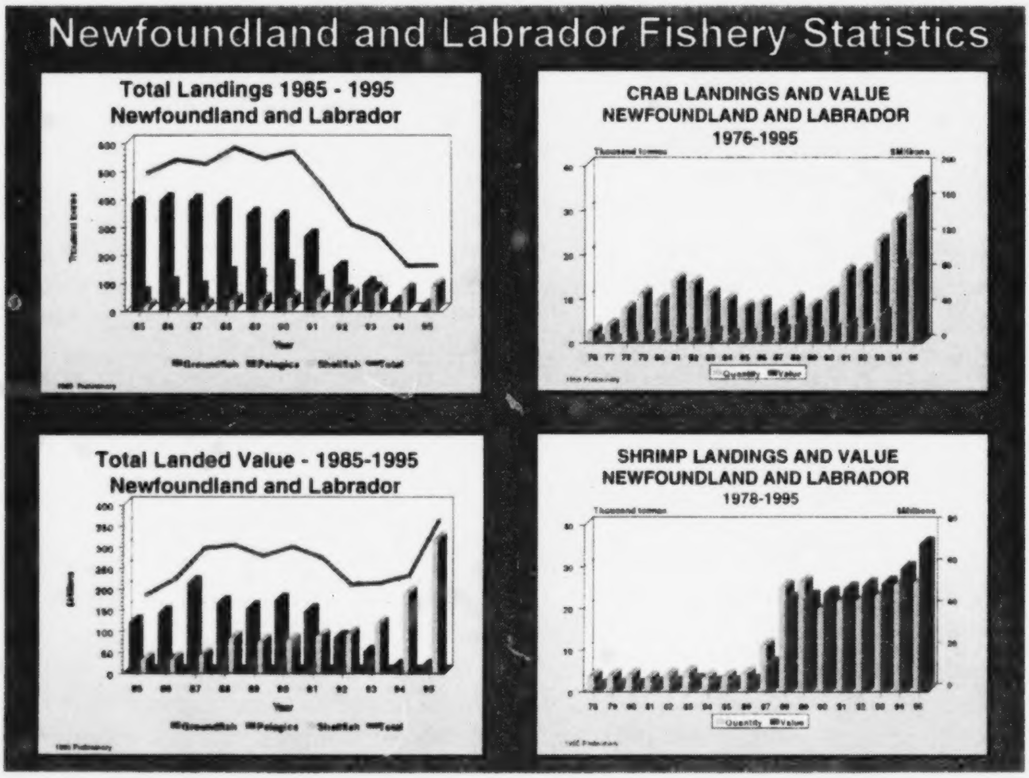
http://www12.statcan.ca/english/ce../popdwell/table-pr.cfm.

Further debilitating is the skewed age distribution of migrants who are leaving. The provincial figures conceal what may be an equally important or even more important trend. As the general population declined, the urban proportion has steadily increased. The Northeast Avalon, for example, has actually had a modest population gain during the exodus, most likely aided by the relatively strong economic performance of oil related activities. This intra-provincial shift is often overlooked in discussions of out-migration. As indicated earlier, large amounts of internal migration have characterized Icelandic demographic patterns over the last 80 years and it has been seen largely as an inevitable and necessary phenomenon. This is not to say that a certain regret has not also been present at the decline of many rural areas of the country.

Demographic shifts and intransigent unemployment, particularly in rural areas, do not tell the whole story of social change in the province as a whole over the last 10 years. A number of important and ongoing social, economic and cultural changes continue to transform the province as well. The increasingly urban nature of residence was noted above. In these areas, labour force participation rates for men and women have increased and employment growth has been significant, particularly for women in the service and retail trade sectors of the economy (the Newfoundland Economy, 2002). While labour force participation rates remain below the Canadian average and are marginally lower for women than men, unemployment rate differentials in urban areas between men and women have been largely removed and participation rate differences narrowing. Housing starts in the greater Avalon as well as most other larger communities on the island portion continue to grow substantially. Per capita and household incomes in these same urban areas continue to approach the Canadian average. Since urban growth is fuelled almost exclusively by indigenous demographic shifts within the province, collectively, these changes reflect important social, economic and political changes. Cultural change is considerably more subtle and slower but it seems likely that important changes will also occur in Newfoundlanders' and Labradorians' sense of themselves as a people.

In rural communities, a number of changes are occurring as well. The fishery, long the economic backbone of most rural areas, continues to be so in many smaller communities but it is a quite different and more valuable one, earning greater export earnings then ever before. This is being done by targeting different species and employing considerably fewer fishermen and processing workers. With the failure of cod and several other valuable species to rebuild and the continuing decline of several other valuable, though supplemental, species such as capelin, fishing has moved down the food web to target 'lower' though more valuable species such as shrimp and crab. As a result of both demand-driven factors (high prices, open market niches, etc...) as well as extensive government encouragement and support, export earnings surpassed one billion dollars several years ago and hover between $450 million and $800 million annually with shrimp and crab dominating earning profiles. Chart 2 captures this 'prey switching' behaviour.

Chart 2 - Species of Interest, Newfoundland and Labrador 1985-1995



Since 1995, the same pattern has continued although continuing declines in cod stocks have meant fewer groundfish landings and a three month shrimp strike in 2002 reduced shrimp landings appreciably. Is fishing down the food web sustainable? Several authors have questioned its sustainability (Felt, 2000, p. 320-321). There is already tentative information suggesting certain populations of snow crab are at or beyond sustainable harvesting levels. Shrimp populations do not yet suggest any possible stock problems despite increased efforts. While both species are governed by quotas, political pressure increases to expand processing and harvesting licenses. Thus, the longer term sustainability for such fishing may be problematic. Augmenting these emergent fisheries are pockets of more traditional ones for lobster, lump roe, flounder and capelin with increasingly reduced numbers of cod (increasingly viewed scientifically as untenable pending further cod stock renewal). A range of aquaculture initiatives is also being explored. Indeed, the recently renamed Provincial Department of Fisheries and Aquaculture conveys the hoped-for role of a variety of aquaculture activities for various species.

Rural and urban areas of the province appear headed in opposite directions in their projected economic health. As urban growth increases significantly, though as yet unstudied, social and cultural changes are likely for those individuals and families who remain in large numbers in rural communities. As one travels through rural, fishing-based communities today, the material changes are clearly visible. Large expensive houses frequently stand adjacent to modest bungalows (and occasionally a much older 'saltbox' dwelling). Frequently built on land owned by the same family for generations, the housing reflects access to lucrative limited entry licenses (or at least employment as a crew member for those with licenses). While a majority of rural emigrants of the last 10 years are between 19 and 40 years of age, many more of these, particularly at the high end of this range, do not leave due to limited education and formal skill levels. Contemporary victims of choices made to 'go fishing' or 'work in a plant' in the 1970s and 1980s, large numbers struggle while brothers or other relatives earn incomes equal to, and in may cases far surpassing, Canadian averages. Despite substantial efforts at educational upgrading and skill acquisition under TAGS, they remain behind in hope of a better future, aware that only unskilled, insecure employment opportunities await them 'up along'.

Quite simply, levels of inequality in rural Newfoundland are now more extensive than ever. This is not a new process, of course, having started with first efforts to build an industrial fishery (Wright, 2000). The combination of traditional groundfish collapse with new, lucrative yet restricted, opportunities has greatly accentuated the process.

One final important social change promises to significantly affect the province generally and rural areas particularly and that is increased school retention and graduation rates. Mean levels of schooling completed have continued to increase over the last 20 years, particularly since the fishery moratorium of 1992. High school graduation rates now approach 92 per cent throughout the province. Research in Bonavista suggests that an important reason underlying this increase is recognition that the fishery no longer exists as an employer of last resort and that contemporary fishing requires higher, more specialized levels of education. Thus, even if one plans to stay in the community, education is increasingly important (Dr. P. Canning, personal communication). This recognition and, more importantly the consequences resulting from it[1], may be the most important long term benefit from the fishery collapses of the 1990s. Given the strong, if not necessarily direct, relationship between education and economic prosperity, Newfoundland and Labrador is thus in many important respects a qualitatively and quantitatively different society today. Can experiences in other North Atlantic islands help inform choices, policies and decisions that will need to be made in forthcoming years as the striving for full benefits of a modern society continues?

Åland Islands

The Åland islands are an archipelago of approximately 6,500 islands distributed between Sweden and Finland in the Northern Baltic Ocean. More than 90 per cent of its 25,000 plus inhabitants and a majority of the 16 designated communities live on the largest island where its only city and capital, Mariehamn, is located (Beijar, 1997). One of the more vibrant economies in Scandavia, inhabitants derive the overwhelming majority of their incomes from shipping, tourism and retail trade with lesser amounts flowing from agriculture and fishing (Lindstrom, 2000). Though politically aligned to the Finnish state, the islands are unilingually Swedish and possess a semi-autonomous relationship to Finland as a result of a formal declaration by the League of Nations in 1921, later ingrained in the Finish Autonomy Act. The Act has been revised three times, each time providing for slightly enhanced powers to the Åland government (Beijar, 1997).

Åland was part of the Swedish empire until the War of 1808-09 after which Sweden was forced to relinquish the islands as well as Finland to Russia. With the disintegration of the Russian empire during WWI, Finland declared independence in 1917. Åland attempted reunification with Sweden given its slightly closer geographic proximity and linguistic/cultural connection. Finland opposed Åland's reunification and, following tense and unsuccessful attempts to settle the issue between Sweden, Åland and Finland, the issue was taken to a nascent League of Nations which ruled in June of 1921 that Åland should forever be demilitarized and neutral. Beijar suggests the League decision was a three-fold compromise: Finland maintained claims to sovereignty over Åland; Sweden received assurance that the islands would be neutral and hence not a military threat to Swedish territory and Åland provided autonomy and protection for its Swedish culture and language.

Åland is formally governed by a Legislative Assembly (Lagtinget) or approximate equivalent of a Legislative Assembly, which in turn appoints a government (landskapsstyrelsent). Appointment to government is based on democratic principles with the winning party or coalition (more often the latter) in legislative elections appointing from five to seven members. The government administers all areas mandated by the Autonomy Act including education, culture, commerce, municipal administration, healthcare, policing and postal services. These areas are first and foremost for the protection of Åland's linguistic and cultural autonomy. Fiscal and monetary policy, foreign relations, most civil and criminal law as well as the vast majority of taxing powers are national. Åland also has representation in the Finnish Parliament as a distinct constituency in national elections from which one representative is selected. To provide these services, the Åland government is enabled to levy a range of taxes and fees. Åland also possesses an interesting redistributive relationship with Finland to compensate for those tasks that would otherwise obligate the local parliament. Routinely, this constitutes an annual repayment of 0.45 per cent of national revenues. If, however, Åland's share exceeds 0.5 per cent, the ***entire*** amount in excess is returned (Lindstrom, 2000). In recent years this has amounted to a sizeable payment.

Though international relations such as treaties and trade agreements are the sole prerogative of the Finnish state, Åland's Autonomy Act allows for certain important influences. Åland appoints one of the three Finnish members to the Nordic Council (a trade, cultural and funding association of Scandinavian countries). International agreements potentially affecting issues within Åland's legitimate domestic domain must also be passed by the Åland Assembly before they become enforceable in the islands. This power was tested in 1995 during Finland's negotiations to join the European Union (EU) (Beijar, 1997). At that time, the Åland government expressed concerns regarding the impact of EU membership on local autonomy and economic development policy. These concerns were included in negotiations as a condition of Åland legislative approval.

Åland's membership in the EU through Finland is regulated through a special arrangement. As a result, her jurisdiction over land acquisition, ferry licensing and requirement of a 'domicile' right to vote and hold office are maintained. Åland is considered under the terms of EU membership to be a 'third territory' to which EU rules regarding the standardization of indirect taxes does not apply (i.e. she, unlike Finland, is a member of the customs union but not the tax union). This distinction is particularly important because it allows the extensive tax-free shopping that is an important employment and foreign exchange earner for traffic to and from Åland as an important ferry terminus within Southern Scandinavia. **This exemption for duty free transactions is now unique within the European Union since it was removed elsewhere in 1999!**

Åland's initial claim to special status was derived from its linguistic and cultural history. As recently as 1997, approximately 94 per cent of Ålanders declared Swedish as their first language. Swedish is the only official language of Åland. Finnish has only been studied as a 'foreign language' (Beijar, 1997). Nonetheless, an increasing number, now approaching 90 per cent, of Åland children learn Finnish in their school curriculum. The archipelago has no universities and limited technical schools beyond high school. Approximately half of Åland youth move to Sweden to study while the other half move to the Finnish mainland, particularly the Swedish language university in Turku. While the original intent of the Autonomy Act was to allow protection and survival of linguistic and cultural difference, Ålanders have had some success in extending its jurisdiction into areas of more economic relevance for its citizens.

The Åland economy has been one of the more robust in Scandinavia over the last 30 years. If GDP per capita is taken as a reasonable measure of performance, levels during the last 10 years have varied between 20 and 40 per cent above Finland and 30 per cent and 50 per cent of the EU mean (Lindstrom, 1997). In 1998, she stood as the 18th richest out of 206 regions in the EU (ASUB, 2000, 1998). Unemployment remains low even by Scandinavian standards ranging between one and 3.4 per cent during the same period. Originally an agrarian and fishing society, Åland has transformed itself into arguably THE major player in modern, large high-speed ferry services for tourists throughout southern Scandinavia and in the process generated hundreds of millions of dollars for the economy. Combined with extensive shipping and transport support services (marine insurance, roll on/roll off services) plus its tax-free status for tourist shopping, Åland has been able to construct a highly successful economic environment for its citizens.

Is there a secret for Åland's success? The answer(s) most likely results from a series of purposive and fortuitous circumstances. These most likely include geographic location, cultural and linguistic features and commercial traditions linking Åland and Swedish upper commercial classes (Lindstrom, 2000). Geographically, Åland's location close to southern Sweden though part of the Finnish state most likely facilitated a 'broker' role in trade and traffic. The fact that Swedish was and is the only official language spoken likely also played an important role. The strong sense of cultural identity and occasional tension with the Finnish state may have also aided. In retrospect, such tension was channelled in a 'non-politicized' (Lindstrom, 2000, p.115) manner towards economic opportunities made available by location and Finnish legislation. Åland's successful commercial class is claimed to have prospered to some degree through its close linkages to Swedish counterparts.

Given Åland's small geographic size, limited population and minimal control over the financial levers of a modern state, a strong and co-ordinated business sector to promote private entrepreneurship, create and maintain critical networks and possess strategic capacity to anticipate and then avail of emergent economic opportunities was an important prerequisite. The region's long history in trade and shipping, located as it is to Swedish and Finnish main population centres and trading routes, enabled this to occur. Prior to the present century, Åland was home to substantial commercial interests involved in largely commercial trade. Following the second World War, Åland-based shipping and transport support services were resurrected and expanded. As large, speedy marine ferries began to emerge in the late 1950s on the Sweden-Åland-Finland route, Åland ship owners quickly grasped the opportunity, acquiring a large number of ships using largely Swedish capital which they had access to through educational, linguistic and cultural ties to Sweden. Over the next 50 years, Åland interests have expanded their tourist ferry business until today they are a dominant interest in Scandinavia. Additionally, a wide array of support services and tourist venues have arisen to take advantage of its 'duty free' status. In recent years, the islands have had to import temporary workers to staff their service activities during the busy summer months.

Faeroe Islands

The Faeroe Islands are an archipelago of 17 inhabited islands in the North Atlantic, approximately midway between Iceland and the Shetland Islands off Scotland. The largest settlement and capital is Torshavn with an estimated population of 17,200 on the southeast coast of Stromo (Streymoy) Island. Total population is slightly over 45,000. The island's topography is characterized by high escarpments and plateaus separated by deep chasms. The islands are traversed by a number of deep fjords providing a long and highly indented coastline.

Islanders trace their ancestry to Viking era Norwegian-origin settlers. From the royal union between Norway and Denmark in the early 19th century to the present, they have been politically linked in one form or another to the Danish state (Olafsson, 2000). The Danish Constitution of 1849 formally incorporated the islands into the Danish state although a ressurected 'advisory' legislature, the Logting, was allowed. Governing capacity of the Logting was extended on several occasions up to World War II in response to Faeroese nationalist sentiment (Lyck, 1997).

During WWII, Denmark was occupied by Germany and the Faeroe Islands by Great Britain. At this time, increased nationalist sentiment expressed itself in a movement for sovereignty. The Danish administrator and a majority in the *Logting* reached a compromise governing solution whereby the islands would be governed through a tri-partite arrangement consisting of the Danish administrator, the *Logting* and its executive committee. In 1946 the Danish government offered legislation conferring limited self-government on the Faeroese. This was rejected by the Faeroese and in 1948, following rather tumultuous negotiations, a compromise Home Rule Act was passed by Denmark and ratified in the Faeroe Islands. One of the immediate benefits of the new Home Rule Act was the extension of modern infrastructure to the islands. Roads, telecommunications, water and sewage, hydroelectric facilities, tunnels, bridges and schools were extensively built over the next 20 years with Danish funds.

Under the Home Rule Act, the Faroese are allowed to retain their own flag, protect their indigenous Faroese language and special citizenship rights. The latter is manifested in passports provided to all Faroese nationals indicating they are citizens of BOTH Denmark and the Faeroe Islands (Olafsson, 2000). Of more relevant economic implication are a number of transferred and shared powers with the Danish Parliament. Faroese authorities possess authority to levy direct and indirect taxes, build harbours and roads, telecommunications, hydroelectric and other infrastructure, regulate trade and industry and promote fisheries and other resource development. Health, education and social security have remained joint undertakings though specific program financial obligations remained largely Danish until 1988 when a 'block grant' system was initiated in which distributional decisions regarding these costly services were left largely in Faroese hands. Faroese authorities through the *Logting* are free to augment and modify any such programs though all costs for such changes must be covered entirely by island funds.

Foreign relations under Home Rule remain firmly in Danish hands though several 'advisory' processes are recognized. These include special attaches at Danish embassies, a Faroese advisory to the foreign ministry, participation in Danish delegations and, in limited cases where Faroese concerns are paramount, of direct Faroese-led negotiations supported by the Danish Foreign Service. This has proven particularly useful for participating in several North Atlantic multilateral fisheries management organizations such as NAFO (Northwest Atlantic Fisheries Organization), NEAFC (NorthEast Atlantic Fisheries Commission) and NASCO (North Atlantic Salmon Conservation Organization).

The Faeroe Islands have been reluctant to join the multilateral trading blocs that arose in the 1960s, 1970s and 1980s. Thus, while Denmark was a founding member of the European Free Trade Association (EFTA) in 1960, the Faeroes remained outside, negotiating bilateral arrangements until 1967 when trade liberalization rules were extended to include fish products. The Faeroes delayed withdrawing their protective import duties on fish until 1973, and shortly thereafter withdrew from the EFTA with Denmark. While Denmark then joined the EU, the Faroese rejected membership fearful that the common European Fisheries Policy (CFP) favoured the large trawler fleets of Britain, Germany and France. Moreover, forthcoming Law of the Sea rules were almost certainly expected to reduce access to distant waters making control of local fishing territory critical (Lindstrom, 2000).

From 1974 to 1991 trade between the Faeroe Islands and the EU was governed by numerous unilateral agreements. They generally provided for preferential customs treatment for some of the more economically important Faroese fish export products. In 1992, an EU initiative led to its replacement with a more general agreement on free trade. While it allowed for duty free trade in a wide range of Faroese fish products, it set quotas as well and removed island import levies as protection for local fish production. In place of the levies, a non-discriminatory Value-Added Tax (VAT) was instituted. In retrospect, Faroese acceptance of the agreement was most likely the result of precious few alternatives given that the proportion of fish exports destined for EU countries had rise from 39 to 79 per cent between 1970 and 1990 (Morkore, 1995, p.149) and a grudging realization that import protection was an ineffective strategy for creating sustainable export industries (R. Arnason, personal communication). The Faeroe/EU trade relationship continues to be ruled by this agreement though slight modifications have been made from time to time.

The Faeroes, along with Greenland, are by far the most fishery-dependent societies in this comparison. Since the 1920s, fish exports have represented in excess of 90 per cent of all export earnings (Arbok fyri Foroyar (Statistical Bureau of the Faroe Islands, 1995, 2000). During the last one hundred years, fish harvesting and processing has eclipsed farming, particularly fodder crops and sheep, as a predominant industry. The movement towards high fishery dependence began at the end of the 19th century with dried, salted cod—the major fish export. In the early years of the present century when fishing began to decline, at least partially the result of the emergence of steam driven British 'side trawlers', many Faroese fishermen and merchants responded by purchasing second hand trawlers from Britain (with Danish government loans and grants) and developing their own, high seas, distant water fisheries for both salt and, later, frozen cod (in many respects a pattern similar to Iceland). While the depression was devastating for the islands despite significant financial assistance from Denmark, so successful had this strategy become that by 1997, Faroese trawler fleets represented one of the 10 major high seas fisheries in the world (Morkore, 2000).

The Faroese fishing industry has been the primary engine of growth for most of the century, but especially so since the 1950s. Initially a dispersed, high seas one, it has been refocused since 1977 as a result of emergent territorial limits and controlled access. While ostensibly privately owned and controlled, the Faroese state has long displayed strong interventionist behaviour, particularly in times of crisis. Intervention has taken several different forms depending upon the historical period and particular circumstances. Predominant forms of intervention have been income support programs, minimum fish price guarantees, vessel and processing incentive grants and low interest loans. In response to regional pressures within the islands, efforts have been made to seek a 'politically acceptable' distribution of employment opportunities throughout the society (Lindstrom, 2000).

Hitching one's economic future to fish has been something akin to a collective roller coaster ride. When fish prices were high, raw material available and capital costs relatively low, economic conditions in the Faroes typically outpaced Denmark. For example, GDP per capita outpaced the Danish average in the years 1961-1970 and 1981 to 1989 by an average of six to 11 per cent. At the same times, unemployment levels ranged between one and four per cent (Arbok fyri Foroyar, 1995, 2000). In times of crisis, for example during the oil crisis of the early 1970s, the transition to a 'home fishery' after the 200 mile limit extensions and the over-capacity of 1992-1994, incomes fell as low as 25 per cent below the Danish average and emigration to Denmark reached dramatic levels. In 1993 and 1994, for example, outmigration numbered 2,831 and 3,284 individuals representing six and 7.5 per cent of the population respectively (Statistical Bulletin 2000 of the Faroe Islands, Table 4).

Due to its lack of control over monetary policy to pursue policies such as devaluation to maintain competitive export prices and without alternative sectors to help offset costs, the Faroese government claimed little choice but to raise taxes on importers of consumer goods to secure money for fishery-related costs. When a crisis passed, fishery-related supports all too often remained in place contributing to the overbuilding of the sector (Morkore, 1995).

The current crisis originating with the extension of jurisdiction by most nations to 200 miles illustrates this dilemma and reveals some interesting parallels with Newfoundland and Labrador. The adjustment associated with 200 mile extended jurisdiction was considerable. The Faroese fleet had developed largely as a distant water one. While local, inshore 'cutter' fleets of upwards to 1,500 boats did exist prior to 1977, their major competitors were British and

German trawlers. Extended jurisdiction changed this dramatically. Until bilateral agreements could be established, more and more of this fleet was confined to Faroese waters. Highly optimistic scenarios for groundfish and shrimp stock growth led to both a rapid expansion of processing capacity as well as greater vertical integration (Mokore, 1995) funded with Danish as well as new 'offshore' capital often underwritten by the *Logting* in Torshavn. Arguably, the period 1981-1989 was the most prosperous recorded for island citizens.

During this period, attempts at diversification were undertaken as well though none have succeeded in remotely approaching fish harvesting and processing in employment or export earnings. Finfish aquaculture, particularly Atlantic salmon, began in the numerous fjords. While at one point contributing upwards of 20 per cent of fish related export earnings, the industry suffered from low prices and high costs in the early 1980s and substantial portions were taken over by Norwegian interests. In 2001 export earnings as a percentage of total fishery earnings finally returned to early 1990s levels of around 23 per cent (Hagstova Foroya, Table 6.5). In the subsequent 'rationalization' process, production and employment have declined (Arbok fyri Foroyar, 2001). Commercial shipping and marine ferry ventures have also been undertaken with marginal success. During the mid-1980s, an effort was undertaken to promote the Faroes as an 'Atlantic Resource Centre', a transhipment centre for fish products and other cargo—with modest success.

The Faroes have also tried to emulate Iceland in developing fishery-related capital goods production. Thus, extensive promotion of fishing gear and processing equipment has been undertaken with some success. Such 'backward linkages' (Felt, 1987, 1985), along with expanded and modernized ship building facilities were heavily affected by the crisis of 1992 and only in the last three or four years show signs of recovering. Success in non-fishing related industries has been more problematic. Some success has been achieved in a revitalized woollen industry for export in recent years though this has been far below expectations given several decades of duty free access to European markets.

The most successful efforts in economic diversification have occurred in the tourism sector. Recent estimates place upwards of 2,500 jobs directly associated with tourism and eco-tourism representing approximately nine to 11 per cent of the labour force and perhaps as much as five to eight per cent of foreign earnings (Arbok fyri Foroyar, 2000). While most of these are seasonal, they represent a substantial new source of foreign currency and employment. There is also considerable optimism regarding offshore oil and gas reserves. In anticipation of commercial finds, the Faroese government has developed a framework for exploration and development to ensure maximal industrial benefits and employment are captured during exploration and later production phases.

The crisis of late 1992 in which several large fish companies were forced into bankruptcy and most others reduced catches in response to declining fish populations and lower prices revealed important structural weaknesses underlying the Faroese development strategy. Political ramifications were immediate and profound. The election of 1994 replaced half of the sitting members in the *Logting*. The new Parliament then went to Copenhagen to negotiate assistance for the crisis. In Faroese eyes, according to local media stories, the price demanded by Denmark was excessive if not humiliating. They included the reorganization of Faroese banks, with one declared bankrupt and the other two amalgamated with their assets owned by a financing fund with Faroese ownership but Danish control. Most processing plants were declared bankrupt and merged into a single plant with funding and control vested in the same fund controlling the reorganized banks. Fish stock management in Faroese waters was restructured on the basis of Danish advice and included the introduction of Individual Transferable Quotas (ITQs). After two years of heated discussion and debate both within the islands and between them and Denmark, the Danish government established a Committee of Inquiry in early 1998 which was seen as highly unfavourable to Faroese interests.

In the election of May 1998, a coalition of nationalist parties committed to revisiting constitutional relations between the Faroes and Denmark formed a collation government. In a declaration issued shortly after forming the government they issued a proclamation confirming that the Faroese are a people with the inherent right to sovereignty. The new government released a document highly reminiscent of the relationship between Iceland and Denmark between 1818 and 1944 (Olafssen 2000). In early Fall of 1998, the coalition received majority assent from the *Logting* to proceed with a fact finding phase after which it was to be brought back to the Parliament for discussion. In 2000 a preliminary report was tabled and debate continues on both future relations between the Faroes and Denmark as well as the Faroese stance regarding the EU.

Economically, some recovery has occurred since the collapse of 1992. Buoyed by some signs of stock recovery for cod, there have also been a number of bilateral agreements involving shrimp, better international prices for fish exports, substantial expansion in eco-tourism and considerable Danish financial assistance. Unemployment had been reduced from approximately 10 per cent to between three and five per cent for men and women respectively. Labour force participation rates have returned to historic levels of 80 per cent for males and 75 per cent for females. Emigration to Denmark and hence to the EU has also slowed significantly. Economic growth has returned to positive levels following the 1992-1994 crisis. Nonetheless, the Faroese economy remains heavily dependent upon fish products (approximately 95 per cent of export earnings) and deeply in debt to Danish and international creditors with a ratio of long and short-term debt to GDP of 1.16 (116 per cent) in 2000 (Hagstova Foroya, 2002).

Greenland

Greenland, situated between the Atlantic and Artic Oceans, is the largest island in the world with an area of 2,175,600 km^2 with linear dimensions of approximately 2,600 km. north to south and 1,200 km. east to west. Situated mostly north of the Arctic Circle it is separated from the Canadian arctic archipelago on the west primarily by the Davis Strait and Baffin Bay and from Iceland on the east by the Strait of Denmark. The interior consists mostly of a glaciated ice plateau surrounded by mountains. The coast consists of numerous fjords, many with glaciers flowing through the valleys to the sea. Given its latitude, Greenland is extremely cold for much of the year though its extreme southern coasts are ice free due to the warming effect of the Gulf Stream. The short summers average nine to 12 degrees C. Terrestrial mammals are more North American than European in origin and include musk ox, wolf, lemming and reindeer. The marine environment holds valuable resources of fish and mammal as well. Greenland's population stands at approximately 56,124 (Expo 2000 Greenland) of which approximately 85 per cent are of Inuit origin. The current labour force is approximately 24,500.

The vast majority of residents live in numerous small towns and villages in the most hospitable areas along the west and southwest coasts. The capital, Nuuk, is located in west-central Greenland with a population of 13,800 residents. Additionally, there are 17 small towns, 13 with populations in excess of 1,000 and another 65 smaller communities. Greenlanders are a people of mixed ancestry, though as indicated above, approximately (85 per cent) claim Inuit or Eskimo descent with a minority European, mostly Danish and Norwegian. Outside of Nuuk, livelihoods are based on fishing with subsistence hunting and farming.

As a part of the Danish state, Greenlanders enjoy numerous social welfare benefits associated with the modern Scandinavian welfare state. These include publicly funded infrastructure as well as free education, health care, pensions and a wide range of subsidies. Arnason and Friiis (1995) have estimated that Danish transfer payments represented upwards of 30 per cent of per capita income of $7,719 (Danish Krona) in the mid 1990s. Greenland's modern international history parallels that of the Faroes and Iceland. After World War II, Greenland became an integral part of the Danish state in the revised Constitution of 1953. In 1979 Greenland achieved 'Home Rule' following a Greenland national referendum and currently maintains a status similar to the Faroe Islands. In 1982 a second referendum was held to determine membership in the EU following Danish ascension. In February of 1982, Greenlanders voted by a narrow margin to withdraw from the EU. Withdrawal was formally completed in 1985.

The society is ruled by a Parliament (*Inatsisartut*) composed of 31 representatives who are elected every four years. It meets bi-annually in the capital of Nuuk. The Parliament appoints a Cabinet that forms the government. Since 1997, it has been composed of seven members drawn from political parties securing the most votes. Politics is an active pursuit amongst the approximately 20,000 electorate. As in all other jurisdictions except Newfoundland and Labrador, proportional representation (PR) is used to apportion seats. There are four political groupings: Inatsisartut, the Siumut, Atassut and Inuit Ataqatgiit Parties and a loose federation of independent members. Following the last election, standings were Simut 12, Atassut eight, Inuit Ataqatigit seven and Independent members four. A fifth grouping, Arnat Partiiat (The Women's Party) was established at the end of 1999 but has yet to win a seat. The Simut party has been the largest party in Parliament since Home Rule government in 1979. It generally is the most nationalist and was the major political force behind securing Home Rule and the 1985 referendum to withdraw from the EU. The Atassut Party is the most conservative of the parties strongly supporting private enterprise and Greenland's re-entry into the EU. The Inuit Ataqatigiit is a party promoting the collective interests of Inuit. It advocates stronger co-operation between Inuit in Canada, Alaska and Siberia and is moderately socialist in its platform.

Greenland is arguably the most fishery-dependent society in the world. In recent years fishery related products have exceeded 95 per cent of export earnings, employed upwards of 10-12 per cent of Greenland's 24,500 labour force and contributed 17-20 per cent of Gross Domestic Product (GDP) (Arnason and Friis, 1995; Expo 2000 Greenland). These are among the highest values for any society and demonstrate the profound dependence upon fishery related activities. Driven initially by fisheries management extension to 200 miles and Danish development programs, the Greenland harvesting sector expanded quite rapidly until the early 1990s when significant restructuring occurred amidst a period of negative economic growth (Expo 2000 Greenland) before slightly expanding again at the turn of this century.

The Greenland fishing fleet consists of three components: a large offshore dragger segment targeting primarily shrimp and some cod; an inshore/midshore fleet consisting of vessels between five and 80 gross registered tonnage; and, an undecked inshore one with open cockpits ranging from 15 to 30 feet. The largest expansion and subsequent contraction have occurred in the larger offshore component. Between 1976 on the eve of 200 mile expansion and 1990, this sector expanded 600 per cent to include 450 vessels with total tonnage of 60,000 g.r.t. before declining by a third in 1995 due to continued low levels of groundfish, failure to replace older, less efficient vessels and the move towards Individual Transferable Quotas (ITQs) as part of Danish and EU management policies. Since 1998, a modest increase has occurred directed towards distant water shrimping. Several boats currently operate in Canadian waters in the Davis Strait under bi-lateral agreements catching and processing shrimp. Now totalling 42 modern draggers, most with some on-board processing capability, this fleet operates within and extensively beyond Greenland waters. Ownership is distributed amongst the state-controlled Royal Greenland Company (35 per cent) and a variety of private and co-op interests.

The midshore/inshore sector is roughly equivalent to Newfoundland and Labrador's long liner sector, particularly the smaller, under 45' component. While the larger of these vessels can operate bottom and mid-water trawl gear, the predominant technologies are gill nets, long line and hand line. Where shrimp stocks exist close to shore, some are equipped for shrimp trawling as well. This fleet in 2000 consisted of approximately 304 vessels (Expo 2000 Greenland). Lacking on-board processing, these boats, along with the undecked fleet, supply the expanded number of processing plants found in numerous communities. Approximately 34 per cent of all landed volume was accounted for by this fleet in 2000.

The small, undecked fleet is by far the largest in number and employment and has traditionally been the foundation for economic life in Greenland's small communities. In 1999, this sector consisted of approximately 3,800 boats and accounted for six per cent of all landed volume consisting mostly of crab, tusk, Greenland halibut and cod. In 2000 total harvests by all fleet sectors of all species was approximately 157,230 metric tonnes with an estimated market value of $ 397 million ($US) (Expo 2000 Greenland). In excess of 90 per cent of this product goes either indirectly (through Denmark) or directly into the EU. The catches in recent years have been split between foreign nations operating under bilateral agreements (25 per cent) and Greenland-based boats (75 per cent). With the failure of Atlantic cod to substantially rebuild, approximately 70 per cent of the harvest is currently shrimp.

Due to the part-time nature of much fishing employment, particularly in the undecked sector, fishery employment is difficult to measure (Arnason and Friis, 1995). In 1992, Arnason and Friis estimated the number of full-time fishermen as 1,700 to 1,800. More recent estimates place the number between 2,080 and 2,400 or 8.5 and 9.8 per cent of the estimated 24,500 labour force.

In contrast, the processing sector is relatively undeveloped. The dominant processor is the publicly traded, though state-controlled (the state owns the vast majority of shares) Royal Greenland Company. It owns all but three of the 15 medium-sized plants dispersed amongst the smaller communities and Nuuk. Total current employment is approximately 1,400 people in these plants, considerably less than during the early expansion period in the late 1970s and early 1980s. In addition, several villages have small plants dedicated primarily to ground fish. Their operation is intermittent, however, and several went bankrupt in the early 1990s as stocks of cod remained low, unemployment climbed to 10.5 per cent and economic growth was negative. There has been some improvement during the latter 1990s though there is still a precarious dependency upon three or four fish species for most export activity.

Several initiatives have been undertaken during the 1990s to address primary sector reliance on the fishery. Greenland is alleged to have important deposits of zinc, copper, tin and several other valuable minerals. A zinc mine in fact operated until 1990 when it closed due to mineral depletion and high recovery costs. Several initiatives have been undertaken in agriculture including greenhouse developments as well as expanded sheep and wool production. Niche foreign markets exist for woollen products but competition is extremely stiff. In the last six years Danish and Greenland governments have attempted to build an Information Technology (IT) sector based on marine communication. While a hundred-odd jobs are the current result, progress has been difficult. In the future, expectations are high that oil and gas will be found both onshore and in offshore areas under Greenland control. In a similar vein to the Faroe Islands, an exploration and production regime is being created to capture as many benefits as possible for local people.

Possessed of immense natural beauty in the glaciers, mountains and icebergs that dominate the area, Greenland has increasingly turned to tourism and eco-tourism as a source of employment and foreign earnings. Working largely through the Nordic Council, Greenland has undertaken a sizeable information campaign to attract foreign visitors. In 2000, for example, a total of just over 26,000 foreigners visited Greenland through tourist operators. While this pales in comparison to over 300,000 foreigners that visited Iceland in the same period (Statistical Yearbook of Iceland, 2002 Table 11.4; Expo 2000 Greenland), tourism is now the second largest earner of foreign currency. Expectations are high as well that the growth in tourists will continue. To this end, the Greenland government is developing grading systems for tourist accommodations, information booklets on important sites as well as proposing expanded airport facilities.

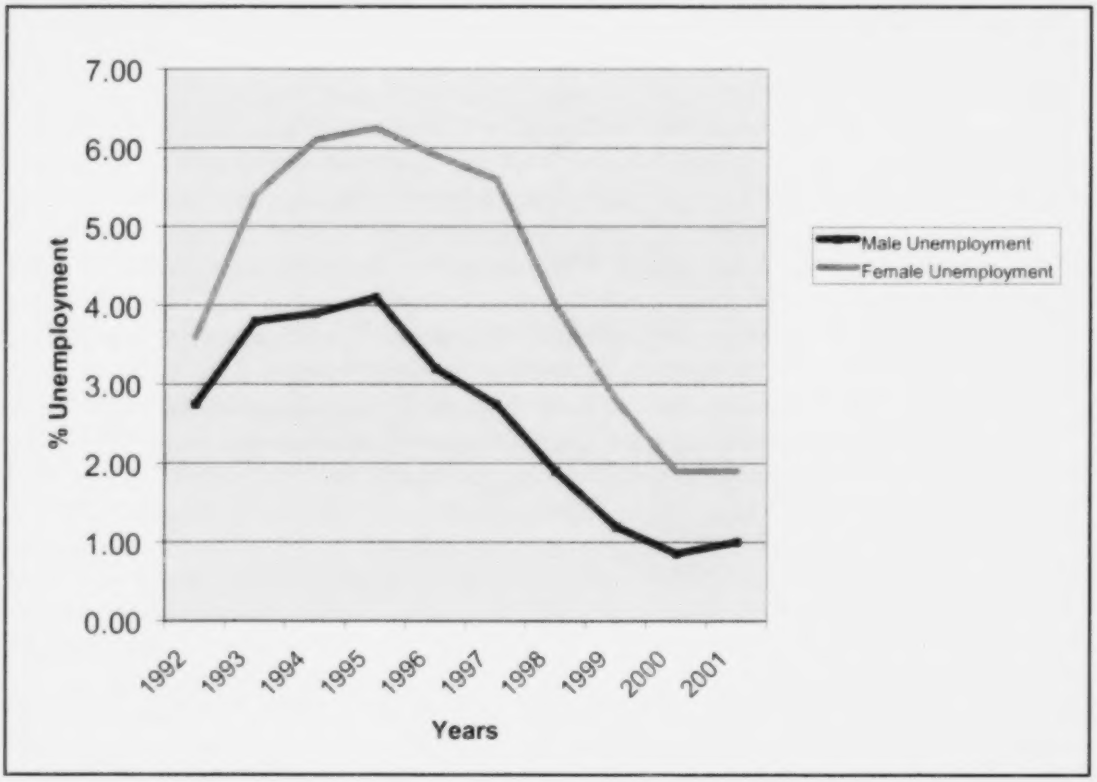
The frustrations of single resource dependency in an ethnically and culturally homogeneous and fairly nationalistic society continue to fuel long-standing tensions in Danish-Greenland relations. References to independence surface frequently in media reports and politicians and residents alike anxiously observe the train of events now occurring in the Faroes. Last elections occurred in 1999 so they will be held again sometime during 2003.

Iceland

Located between 60-63 degrees latitude and 13-23 degrees longitude in the North Atlantic, Iceland is usually considered the prototype of a successful small society. With a land mass of 103,000 square and a population of 282,201 (50 per cent less than Newfoundland), Iceland, since the second world war in particular, has constructed an economy within the top third to a quarter of the 28 OECD members in terms of the OECD's 'standard of living' indicators (OECD, 2000; Iceland Yearbook, 1998, 2002). These indicators include per capita income, private consumption per capita, infant mortality rates, labour force participation rates and levels of selected consumer durables. Such levels place her within the more 'affluent' upper middle of OECD members including Belgium, Denmark, Australia, Norway and France.

This has been accomplished with a labour force of 162,700, a scarcity of natural resources other than marine and renewable energy (geo-thermal and hydro-electric), the majority of which is still untapped, and a market-driven export-dominated economy highly dependent upon fish related activities, particularly fish products. By various measures of yield and productivity, her fishery stands as the most efficient among all fishing states. In 2002 imports totaled 38 per cent and exports 31 per cent of Gross National Product and receipts on current account were 40 per cent of GNP (Statistics Iceland, 2002). These levels are among the highest of any OECD member and indicate an economy whose dominant characteristic is its import-export sector. Since the 1920s marine resources (fish) have contributed between 70 and 90 per cent of export earnings and in recent years, despite attempts to reduce this high level, between 55 and 74 per cent of gross export earnings have come from fish and fish products, depending upon volumes of fish and price levels. Since 1945 official unemployment has not exceeded the seven per cent level reached in January of 1970 and stood at 3.2 per cent in November of 2002 (Statistics Iceland, 2002).

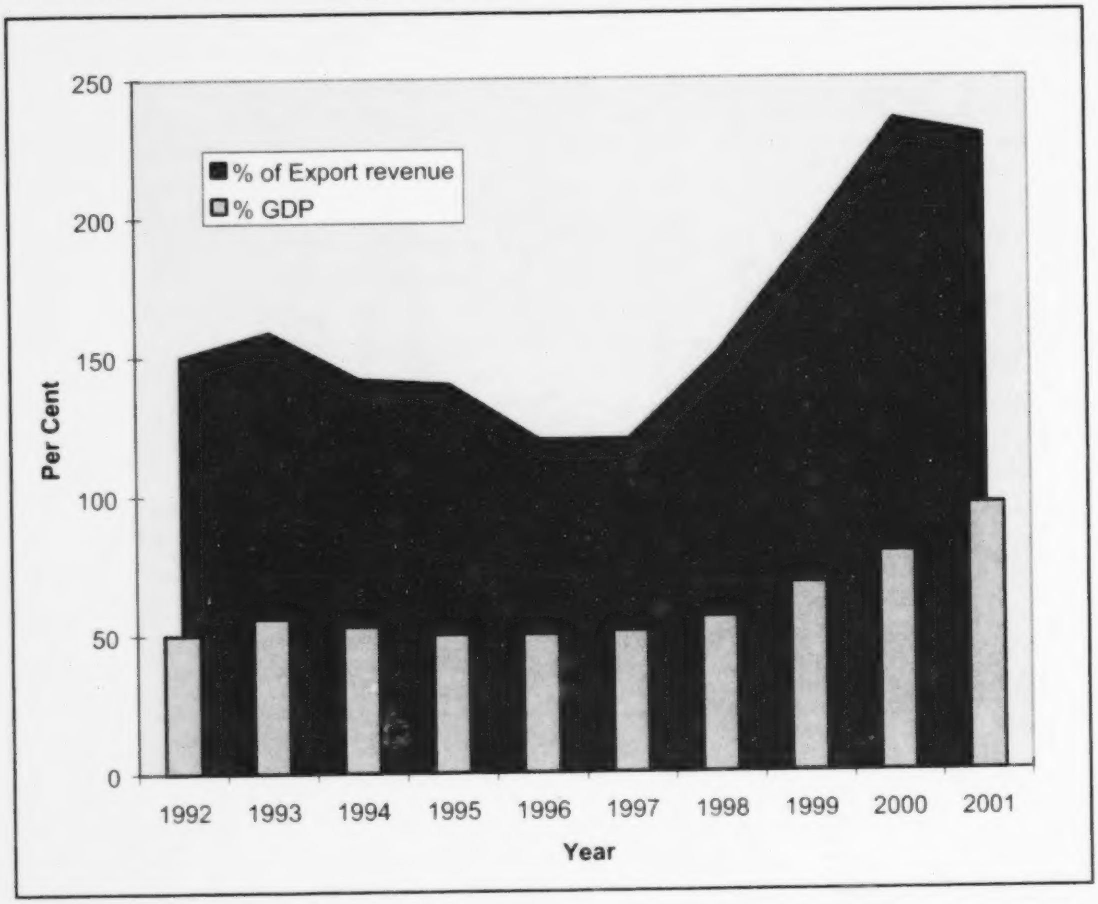
Chart 3 - Male and Female Icelandic Unemployment, 1992-2001



Labour force participation in 2002 was 82.8 per cent (men 84 and women 75 per cent respectively) and has averaged in the mid to low-eighties for men and mid-seventies for women for over 20 years. Finally, numerous quality of life studies have indicated Icelanders to be among the most satisfied nationals of any country in the world (Jonsson and Olafsson, 1991).

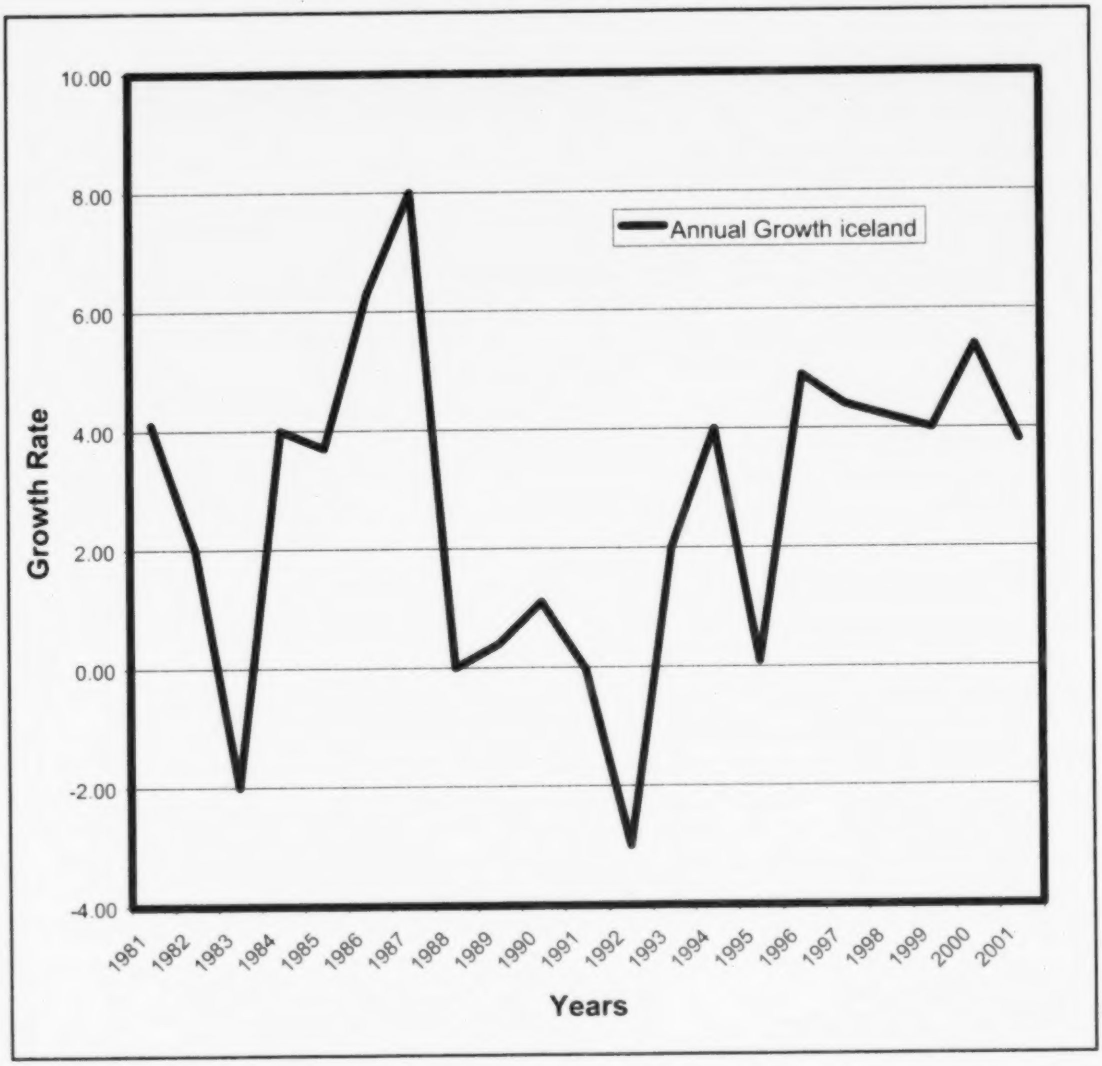
The challenges of building a modern, wealthy industrial society in such a small, geographically isolated location have not been without some economic costs for individuals and the nation. The ratio of total foreign debt to GDP remains extremely high at 96.4 per cent (Statistics Iceland, 2002). Debt service as a percentage of export revenue has consumed as much as 60 per cent of export revenue in any year (47.6 per cent in 2001)(see Chart 3).

Chart 4 - Iceland Long Term Debt as % of Export Revenues and GDP



The Icelandic state has eschewed direct intervention in business activities in the form of subsidies or direct ownership, preferring to define its role(s) in bi- and multi-lateral treaty negotiation, resource protection and establishing management regimes which both maximize resource rents while protecting stocks. Thus, for example, Iceland was one of the first states to introduce Individual Quotas (IQs) and Individual Transferable Quotas (ITQs) into many of its fisheries (and indeed economic activity more generally). Despite its achieved levels of efficiency and competitiveness, the national government has felt the need to periodically use currency devaluation as an 'adjustment' mechanism to maintain competitiveness for fishery exports. This has occasionally led to very high levels of inflation reaching 130 per cent in 1982-83 (Felt, 1985) and highly expensive imported consumer goods. Economic growth in the last 20 years has fluctuated from –3 to +8 per cent as can be seen in Table 4. (Statistics Iceland, 2002 Table 24.9).

Chart 5 - Annual Growth Iceland, 1981-2001



Iceland's social and political history parallels the Faroe Islands and Greenland in many general respects though distributed over a longer time. Settled by Norwegians in the 10th century, it was ruled by Norwegian and later Danish authorities for several centuries. In the late 19th and early 20th centuries a Home Rule movement was successful in 1918 (Kritstinsson, 2000. Among its provisions was the capacity to create an autonomous currency. Over the next several decades, an independent currency was gradually developed. During WWII Iceland, because of its strategic location, was occupied by British and American forces. A large air station in Keflavik approximately 60 kilometres from the capital of Reykjavik was constructed. In 1944, formal independence was declared, followed in 1949 by its membership in the North Atlantic Treaty Organization (NATO). Under a 1950 treaty with the United States, Iceland was guaranteed protection in exchange for US rights to maintain forces at the Keflavik base.

Politically, Iceland is ruled through a proportional representation-based parliamentary system. The legislature is called the *Althingi* and has its roots in the annual meetings of chiefs in the 10th and 11th centuries. The *Althingi* has 60 seats that are typically contested by five or more political parties as well as independent candidates. The five dominant parties are the Independence party, the Progressive party, the Social Democratic party, the People's Alliance and the Women's Alliance.

Icelandic national politics is a highly participatory and vocal activity. Most issues are hotly debated in public and private. Given Iceland's extensive media forms (largest number of newspapers and newsletters per capita in the world as well as largest number of published volumes per capita), politics is an incessant topic. Referenda are utilized to assist government in what are perceived as critical national questions and electoral participation through voting often exceeds 90 per cent of the electorate with an average since the 1950s in the low 80 per cent range (Tomasson, 1980).

Regional and municipal levels of government are extensive and important as well. Municipal governments have far more extensive powers than those in Canada, and particularly Newfoundland and Labrador, due to their important role before the development of a strong central state (Magnusson, 1990; Chamberlin, 1947). By themselves or in partnership, cities and towns often play critical entrepreneurial functions in economic development. Thus, for example, the municipality of Reykjavik borrowed money to build the first commercial port facilities early in this century and as late as 1985 was one-third owner (with private and union interests) of the largest fish processing plant in the society (Felt, 1987). As an illustration of economic activity, local government accounted for approximately 27 per cent of revenues and expenditures and approximately 21 per cent of all public liabilities (Statistics Iceland, 2002, Tables 17.6, 17.7). These numbers reflect a considerably more economically active municipal level than in Newfoundland and Labrador.

Iceland is increasingly a society of cities. In 2002 approximately 70 per cent of the Icelandic labour force resided within 100 kilometres of Reykjavik on the Reykanes peninsula. Officially, the society is now listed as approximately 80 per cent urban (Iceland Statistics, 2002). The capital city of Reykjavik has grown from a small harbour, fishing port of approximately 5,000 in 1912 to a metropolitan area of 104,000 in 2002. Less sensational but steady growth has also occurred in the country's second largest city, Akureyri (population 15, 361) in the north and a dozen other smaller centres. The urbanization process has been reasonably steady, particularly since World War II, and has not been driven by any formal government initiative. As fast and efficient highways link more and more towns, considerable commuting time is increasingly a fact of economic life.

Iceland's economic development from a marginal, agriculture-based rural society in the 1880s to a largely urban modern industrial society has been adequately documented in several places (Chamberlin, 1947; Jonsson, 1995, 1980; Felt, 1985, 1987; Tomasson, 1980; Magnusson, 1990). The foundation of today's modern, industrial society was laid between 1880 and 1950 and resulted from the interrelationship of several factors. These include: the absence of illiteracy due to an oral cultural tradition since at least 1735; strong 'Calvinist' ideologies of work and independence; rapid transformation from 'truck' market exchange to wage labour at the turn of the 19th century; locally owned and controlled financial institutions including the first national bank in 1885; state commitment to the fishery as the primary 'engine of growth' after 1920; access to and embracing of modern technology in harvesting and processing; controls and limits on direct foreign ownership; strong local government; utilization of multiple entrepreneurial and ownership forms including joint private, public and co-operative ventures; significant capital inflows during the second World War as a result of British and, especially American, occupation; early use of integrated marketing and quality control to increase quality and uniformity across fishery outputs; and, governmental decisions to avoid high levels of subsidization to individual enterprises.

Since the 1950s Icelandic efforts have focused upon three objectives. The first was building a modern, market-driven fishery in order to capture maximal, sustainable rent from marine resources. The second was to diversify around the marine staple resource through what have been termed 'backward' and 'forward' linkages[2]. The third is the creation of non-fishery alternative industrial opportunities. At times, policies addressing one or more objectives have been in conflict and success has been greatest for the first objective, followed by the second and third.

The general economic strategy following the conclusion of WWII consisted of a wide variety of export subsidies to keep export production and general economic growth expanding while imposing a wide range of import duties to protect and encourage import substitution. Exceptions were made on a number of capital goods deemed essential for the fishery. Where more drastic measures were required, direct restrictions on imports and exchange transactions were imposed. While such a strategy kept export industries going, from 1956 onward, economic growth slowed down, balance of payments further deteriorated and internal inflation continued at a much higher level than other European countries (Felt, 1985).

By 1960 it had become clear that a change in emphasis was needed to ensure long-term, stable growth. Therefore, between 1960 and 1963 economic re-organization was introduced. Key ingredients included a devaluation of the Krona, the abolition of the complex export subsidy and import duty system and liberalization of import licences.

The management plan of 1960 and its follow up in 1963 remains the foundation of current Icelandic government strategy. It was/is predicated on the belief that new, non-fishing industries need to be developed for both the home and export market if economic stability and long-term growth prospects were to be assured and that past efforts to protect Icelandic industry behind tariff walls had its limits. To that end, negotiations were begun with foreign firms regarding an aluminum smelter at Straumsvik , near Reykjavik, a diatomite filter plant, in the north near Lake Myvatn and several other ventures including a fertilizer plant, originally constructed in 1951, a cement plant and a ferro-alloys plant. In the late 1960s the aluminum plant, for a long time the only foreign owned and controlled operation in the country, and the diatomite plant, jointly owned with the American firm, Johns-Manville, were completed and began operations. Combined with expanded efforts in woolen exports, fishery dependency was reduced to approximately 70 per cent of export earnings, a level that has remained fairly constant since.

In order to create new employment for a labour force growing at two to three per cent per year, the Icelandic government in 1970 sought membership to the European Free Trade Association (EFTA). Through membership, Iceland gained duty-free access to EFTA markets in exchange for gradual removal of most domestic tariffs over a 10 year period. Additionally, Iceland was allowed to retain her bilateral links with the Soviet Union, the source of most of her petroleum supplies. As a 'sweetener', the Nordic Industrial Fund provided for a (US) $14 million loan for transition adjustments. Shortly thereafter, in 1975 and 1977 fisheries jurisdiction was expanded to first 50 and subsequently 200 miles.

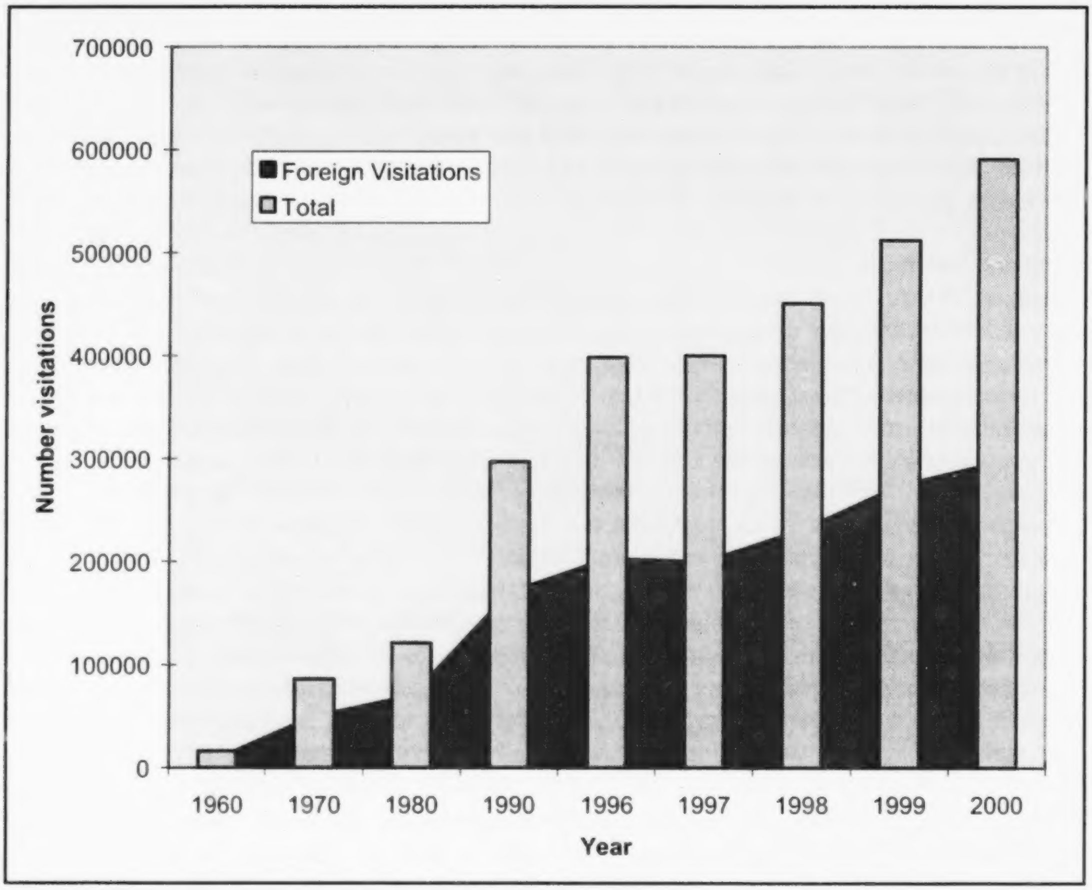
The combination of tariff protection removal and jurisdictional extension led to considerable expansion in fishing output as well as considerable growth in harvesting, processing as well as several fishery-related manufacturing enterprises. Expanded output in direct fishing activity was accomplished while employment in these sectors only slightly increased. Actual harvesting and processing employment rose in the late 1970s, stabilized in the early to mid-1980s and has declined since (Felt, 1985; Statistics Iceland, 1990, 1995, 2001). As a rough comparison, Iceland in 2000 harvested roughly 30 per cent more fish (including over 200,000 metric tonnes of cod) with approximately 60 per cent of our post-moratorium fisheries employment (personal calculation from Icelandic and Canadian fishery statistics).

While Iceland had a limited amount of manufacturing in support of fishing dating back to the 1930s including artificial dryers for saltfish, shipbuilding (though few modern stern trawlers were built locally), long liner reels and limited container packaging, the development of these and other products into internationally competitive ones proceeded rapidly during the late 1970s and 1980s along with a range of new, more extensively processed fish products. A number of Icelandic companies including Hampidjan (trawl nets), Kvikk SF (fish head splitters), J. Hennriksson (Poly-ice trawl 'doors'), Marel electric (computerized fillet weighing scales) and Oddi HF (70 and 90 litre plastic fish containers for 'boxing' catches at sea) have become highly competitive often exporting more than 50 per cent of output (Felt, 1987, 1985). As with virtually all other economic endeavors, this has been done through promoting non-equity foreign investment and thereby retaining largely Icelandic control.

Icelandic economic policy in the 1980s and 1990s has largely been a continuation of this general policy of harvesting expansion where possible, new product development where possible as well as pursuing those initiatives, old and new, where it was felt to possess a comparative advantage. When Icelandic vessels began to over-fish several domestic stocks, including lucrative cod, within her extended jurisdiction, her response was to move to quota systems, develop aquaculture where feasible AND negotiate bilateral arrangements with other nations (for example, access to Alaskan Pollak off the Gulf of Alaska) and increase the value of those fish harvested through improved quality standards. In this latter vein, a novel, computer-based fish auctioning system was put in place by which fish prices were determined at time of catch through communicating amount, size and condition of fish electronically to major European and Icelandic fish buying houses. The fish were subsequently landed at source of the highest bidder, regardless of whether Icelandic. While considerable debate and controversy ensued since the frequent result was foreign processing of 'Icelandic' catch, the decision was largely justified by the national government on the basis of increasing rates of return on the fish.

In the 1990s Iceland made a major initiative to attract more tourists given its scenery and location. Promotional packages were offered through Iceland Air, the national airline. So successful has this activity become that 300,000 foreign visitors were recorded through air and sea in 2002 as well as another 286,000 Icelandic national arrivals.

Chart 6 - Growth in Icelandic Tourism



Currently, secretive and potentially controversial negotiations are ongoing regarding a second aluminum smelter requiring further hydroelectric expansion and heavily subsidized electricity rates. This, along with the continuing exploration for non-fishing sources of gainful employment reinforce a recognition that there are limits to marine resource growth and that increasingly new, most likely highly diversified economic opportunities must be identified and pursued.

Ireland

While Ireland shares an island status with the other societies reviewed, it's substantially larger population base (seven times that of the nearest society in the sample) makes direct comparisons difficult. The primary basis for Ireland's inclusion in this comparison is its recent past during which it has been transformed from a relatively impoverished society with high emphasis on lower wage, primary sector industries and tourism to what has been termed the 'Celtic Tiger' in economic growth and performance (Jackson, 1999; Sweeney, 1998, MacShary and Padriac, 2000; House and McGrath, 2003). Since there is substantial literature on the more immediate fiscal and monetary causes for its recent dramatic performance, our emphasis here will be on introducing some less publicized, though arguably highly important, non-economic factors as well. In particular, the potential importance of consensus-building, corporatist structures will be examined. Such a discussion is not meant to detract from the more visible explanations such as drastic state expenditure reductions to achieve a balanced budget, labour markets 'liberalized', business taxes pared back extensively and streamlining the approval process from government.

On a number of macroeconomic indicators, the Irish transformation has been substantial. The Irish deficit has been reduced from between $1.5 billion to slightly more than $2 billion Irish pounds in the early and mid-1980s to a surplus of $2.497 billion by 2000 (House and McGrath, 2003. P.14). Similarly, national debt has fallen from a high of 130 per cent of GDP, one third higher than Iceland, to under 50 per cent of GDP by 2000; inflation reduced and unemployment, despite a nearly 30 per cent reduction in the Irish public service, reduced from the mid to high teens to around six per cent in the last two years. Labour force participation rates have expanded, particularly for women, to the high 60 and low 70 per cent levels. The importance of the primary sector, particularly agriculture, has declined and manufacturing and service sectors increased. Substantial new levels of foreign direct investment have occurred in electronics technology as reflected in major investments by Microsoft and Intel (MacShary and Padriac, 2000). Collectively, these changes have led to a reversal in migration flows and the shifting downward of the population's age distribution (Jackson, 1999).

While monetary and fiscal policy as well as massive government reductions in spending and employment have received the bulk of commentary (see Sweeney, 1998), House and McGrath (2003) make a persuasive case for the importance of active attempts to forge partnerships amongst various parts of the society based, at least initially, on Scandinavian 'corporatist' structures of recent years as an additionally important factor.

In contemporary Ireland, the 'social partnership', to use their words, operates in various forms and at multiple levels. The process has become institutionalized, as well as routinzed while simultaneously being reinvigorated as new negotiations occur and new conclusions and compromises achieved to new challenges. The authors claim the process has even moved beyond its structural presence to become embedded in an emerging Irish culture (a 'culture of social partnership', p. 29).

The emphasis on crafted innovations in the structure and process of governance provides an important addition to the Irish explanation by expanding the range of relevant ingredients beyond more traditional economic ones while reminding us of the complex interplay of social, cultural, historical as well as more strictly economic factors in understanding growth and development. This message was also clear in our examination of the other societies and informs the conclusions to this presentation.

Conclusion and Recommendations

Are there 'lessons' from this brief overview of several small North Atlantic societies for Newfoundland and Labrador as it strives to achieve the social and economic rewards flowing from a developed and relatively prosperous society? Armed with the proviso that policies and programs from elsewhere cannot be simply imposed locally, at least 15 areas gleaned from this overview deserve more serious consideration for potential policy development (Table 2 lists them). I have not listed perhaps the most obvious conclusion since it is more an observation than an area for policy or program consideration. This is, of course, the observation that small populations, geographic location or even limited natural resources need not impede successful growth and development. This is not to say that these factors will not provide some initial areas of comparative advantage from which different development can occur. Fish in Iceland and the Faroes as well as Åland's strategic location were critical to these societies' respective development even though, Iceland, in particular, has moved far beyond these activities into expert service industries and technologically-driven manufacturing in support of marine resource development. Each developed modern, efficient firms around these advantages as well as, to varying degrees, built on such successes to diversify. The 15 are presented without any implied ranking.

Table 2. Conclusions

Conclusion 1. 'Competitiveness' and market performance are critical determinants of success.
Conclusion 2. Promote smallness.
Conclusion 3. Control over marine resources is necessary but not sufficient.
Conclusion 4. Capacity to negotiate external trade agreements is essential.
Conclusion 5. Control over fiscal and monetary policy is important though not essential.
Conclusion 6. Tariff protection is an ineffective and impractical development strategy.
Conclusion 7. Stronger local government with a wide mandate is important.
Conclusion 8. High literacy levels are essential.
Conclusion 9. Re-conceptualize issues surrounding migration.
Conclusion 10. Control over transportation policy is important.
Conclusion 11. Selectively developed 'niche' manufacturing and service industries are important.
Conclusion 12. Extensive consultative structures are important.
Conclusion 13. 'Duty free' enclaves and related trade zones are useful strategies.
Conclusion 14. Short and medium term 'penalties' for economic success should be removed.
Conclusion 15. Citizens and governments alike must believe in their capacity to do things.

In Newfoundland and Labrador, governments have too often justified extensive intervention in the development process with the rationalization that being small and geographically distant, extraordinary guarantees and subsidies (if not outright government ownership) were necessary to entice development. Combined with poor planning, the results of such government largesse can be seen in failed enterprises and/or 'sweetheart' subsidies. This review points to at least two partially different government approaches. The Irish example suggests 'getting the government house in order' (reduced public spending, low business taxes, balanced budgets, etc...) legitimated through national consultative structures can drive immense changes in economic performance without significant foreign borrowing or direct transfers to firms. The

Icelandic example utilizes a different focus, namely providing generalized, non-monetary assistance to promote higher productivity and efficiency combined with a willingness to use monetary policy in particularly acute circumstances. In both cases, the objective is to promote competitiveness internationally.

In the Irish case, an important result was the luring of large multinational firms such as Intel and Microsoft while in Iceland, the primary beneficiaries were Icelandic firms. Conclusion 1 emphasizes that the ultimate test will be market competitiveness in an increasingly 'open' market.

Conclusion 2 suggests that smallness be considered an asset rather than a liability. Armstrong and Read (1998), among others, have persuasively argued that small population size and geographic isolation are not necessarily impediments to modern economies. They cite numerous Atlantic and Mediterranean islands including Malta, Jersey, Mann and the Shetlands as examples of 'successful' small islands. In a recent book, Baldacchino and Milne (2000) have taken this idea and stood it on its head advocating the active promotion of smallness. In their view, small population can be an asset in negotiations since larger powers, political as well as corporate, may feel some combination of sympathy and unconcern of negative consequences resulting from such dealings. This can translate into opportunities not necessarily available to large, more potentially threatening political entities.

The third conclusion is one residents of this province will be highly familiar with. Effective control over marine resources, living and inert, emerges as a critical condition where marine resources play an important part in the economy. Control does not prevent mismanagement as Iceland's depletion of cod and herring stocks indicates. Nonetheless, without a substantial role in management, maximal benefits are not likely to happen and the likelihood of unsustainable practices probably increased. Management, if not outright ownership and control, has been a vociferously contested issue here since Confederation in 1949. In commenting on the early years of Confederation when the spectre of greatly expanded foreign distant water fleets first appeared, the late David Alexander (1977) likened Canada's response as not even worthy of a 'paper tiger'. In Alexander's words:

> " But Canada was not even a paper tiger on this (foreign fleet expansion and extended jurisdiction) ... For, at the Law of the Sea Conference in 1958 Canada astounded other coastal states by vigorously defending the then three mile limit". (1977, p. 164)

Despite the hype of Brian Tobin's crusade as 'Captain Canada' against Spanish and Portugese vessels in the 1990s, little has changed. In short, Newfoundland and Labrador have not been well served by Canadian control of her marine resources. The solution may lie in some variety of a Memorandum of Understanding (MOU) in which formal and final jurisdiction lies with the Canadian state but meaningful participation, perhaps by having a formal seat, is accredited to the province. One obvious example would be the North West Atlantic Fisheries Organization (NAFO). The societies discussed provide several illustrations of the forms this might take. Whatever the exact form, an essential recommendation flowing from the comparison is that Newfoundland and Labrador pursue and acquire more meaningful participation of marine management through viable co-management structures.

Conclusion 4: The clear majority of non-independent states surveyed possess some capacity to both negotiate bilateral and/or multilateral treaties of particular relevance to them and, as important, insulate themselves from the effects of treaties and trade agreements negotiated by their 'mother' states which are perceived as unfavourable to them. Thus, Greenland and the Faroe islands have either rejected membership in the EU despite Denmark's membership or, in the case of Greenland, negotiated withdrawal from it. This is a complex issue in federated states such as Canada as can be seen in the subtle ways in which Quebec has tried to establish an 'international status' for itself in *Francophonie* and other international cultural associations. Newfoundland and Labrador should nevertheless actively pursue the capacity to both negotiate bilateral and multilateral trading agreements of perceived importance to them as well as possess the capacity to withdraw from those agreements duly entered into by Canada which are seen as harmful to the province's economic interest.

Conclusion 5, meaningful control over monetary and fiscal policy, would likely require separation from Canada. While independence would allow the use of such policies, it would have serious social and economic consequences given the high dependency upon transfer revenues and grants and is presently politically unlikely. While it has become a critical element of Icelandic defense of its fishery, development of a modern fishery by the Faroese suggests it may not be essential. It is therefore unclear if any meaningful recommendation can be made relating to this conclusion. It is also unclear as to whether such capacity to set monetary policy is essential.

Conclusion 6 reflects a lesson widely learned throughout the world, namely that high tariff walls to shield local industry from foreign competition is an ineffective strategy to promote industrial development. Even if possible in an era of rapidly expanding free trading blocs and associations, the collective experience of these islands, particularly Iceland, suggests local industry must become competitive and international in its orientation. In recent years with membership in the North American Free Trade Agreement (NAFTA) and national and provincial governments espousing 'market driven' philosophies of varying degrees, this has become largely a moot point with regard to this province.

Municipal government is extensively developed across the societies discussed here. With the exception once again of Newfoundland and Labrador, municipal governments in all of the societies possess a greater range of revenue generating and economic development capacities. At times these may include assuming responsibility for economic infrastructure such as port facilities and even ownership, solely or in partnership with private and union interests, of specific companies. Certainly, Conclusion 7 recommends that careful consideration be given to addressing this issue through redrafting of critical municipal legislation.

While the link between level of school completion, literacy and economic well being is exceedingly complex, few, if any, societies exist in which there is not a strong correlation. The North Atlantic societies chronicled here, with the possible exception of Greenland, display extremely high levels of literacy. This is likely due, at least in part, to the observation that they are primarily written rather than oral cultures in which cultural meanings are intergenerationally transmitted through writing more than oral story. The Icelandic Sagas are the most conspicuous example. Low levels of illiteracy were likely an important factor in the relatively rapid embracing of modern economic practices in these societies. As noted, educational attainment levels have risen dramatically since 1992 and this should be less of an obstacle in the future.

The North Atlantic societies surveyed make an important distinction between **internal** and **external** migration. Given market-based development strategies, all have experienced substantial migration within their respective jurisdictions. This is most obvious in Iceland though as we have argued earlier. Generally, government policy in these societies has been primarily directed towards reducing external or out-migration. Internal rural population decline is an issue in these societies but governments openly admit that market dynamics will lead to demographic shifts and that some, perhaps even most, rural communities may inevitably lose population. This may be a difficult conclusion to acknowledge in this province. Nonetheless, a recognition of the distinction and the difficulties (even undesirability) of preventing intra-migration seem a necessary recommendation no matter how initially unpalatable it may seem politically and socially. It might be added that this is not a particularly new insight for the province, having been recognized in the House Commission in 1986 as well as subsequent publications by the Chair of that Commission (House, 1993).

Control over transportation policy, Conclusion 10, has been and continues to be an important factor for several societies. Iceland has its own airline that continues to be used, profitably, to provide access and egress to and from the island at competitive rates and convenient times. Åland has built an immensely successful economy on tourism and ferry management as a foundation. The Faroe Islands, while lacking its own airline, does control ferry traffic between islands and to some extent with Denmark. It has also been successful in negotiating reasonable air schedules with Copenhagen. Control over transportation policy in this province compares unfavourably with these other jurisdictions. A greater and more effective voice in transportation policy would be extremely useful for a wide range of economic sectors, from manufacturing to tourism.

Conclusion 11 addresses the widely-practiced strategy of 'niche manufacturing' by most societies examined. In several cases, including Newfoundland and Labrador, regional networks have arisen between companies displaying 'flexible specialization' (Baldacchino and Greenwood, 1998) in an attempt to create what might be termed 'quasi agglomeration' benefits in a rural, dispersed setting. Building trust and co-operation between independent firms that potentially generate cost savings without requiring mutual inter-dependence is a primary objective. Can a firm's vacant warehouse space be utilized by another firm? Is it possible to share machinery? Can waste products from one firm be inputs into another? None of the islands have yet capitalized on such strategies as fully as they might.

As Conclusion 12 suggests, widespread consultative mechanisms play an important role in government's policy development as well as providing a cushion of legitimacy when controversial and potentially disruptive government actions are felt to be required. There are two mutually supportive ways in which extensive consultation occurs in the societies examined. The first is through high levels of formal political participation. Other than Newfoundland and Labrador, the societies surveyed practice Proportional Representation (PR) within a Parliamentary system. An important result is that all are multi-party systems with extensive citizen involvement. It is the exception for a single party to acquire majority control. As a result, there is the distinct impression that policy options are more thoroughly vetted and elections represent an acceptance of certain policy approaches over others. Where extremely important decisions are required, 'national referenda' are often utilized.

Building a more prosperous society for all members appears to require extensive participatory structures outside the formal political arena. Through such structures, public consensus can potentially be created, alternative government policies publicly vetted and ultimate government decisions, including dramatic and controversial ones, accorded substantial legitimacy. Arguably, Ireland has moved furthest along this path. Ireland has developed elaborate consultative strategies around the National and Economic Social Council (NESC).

Newfoundland and Labrador has made real progress on these 'extra political' avenues through its Strategic Economic and Social Plans. More needs to be done. The province might also want to explore proportional representation as a political mechanism. The near-by province of Prince Edward Island has explored this possibility. Minimally, a review of their deliberations and their possible relevance to this jurisdiction seems a useful step to take.

Åland's considerable economic success resulted initially from a merchant marine plying the southern Baltic trade routes which later expanded into ownership of large, high speed ferries linking the highly populated areas of southern Sweden and Finland. Through creating 'duty free' shopping enclaves at its ports, it has built a modern tourist sector alongside its shipping and ferry services. From this foundation it has branched out into marine insurance and various support service companies dedicated to providing 'niche services' (Baldacchino and Greenwood, 1998). It seems clear that 'duty free' zones, though oft times difficult to negotiate (recall the unique status of Åland's within the EU) are viable and important strategies. The province should investigate where such possibilities exist for implementation.

Åland once again provides the best illustration of Conclusion 14. A preset percentage of tax revenues are established for the islands, based on population. When they are exceeded, the entire amount is redistributed to the Åland parliament. No society has a 'claw back' provision similar to Newfoundland and Labrador regarding resource development, even when substantial national monies are invested in the original development. A clear recommendation is that policies which siphon off substantial revenues from successful resource development, at least until such time as the region acquires economic performance equal to the larger nation state to which it is affiliated, should be removed.

The final conclusion is difficult to translate into concrete policy being essentially subjective, even cultural. Newfoundland and Labradorians must possess strong confidence and faith in themselves and their institutions to succeed. In more pronounced instances the confidence may appear almost brash or smug to foreigners. No society examined has avoided perilous downturns, often for extended periods. On more than one occasion a people's collective mettle is likely to be tested. Confidence is probably linked to a strong sense of distinctiveness as a people in very subtle ways. The route to developing and nurturing such a collective bravado is not well understood. Yet, it is probably analogous to glue in binding citizens and institutions in bad times and providing the collective will to make bold national decisions when needed. The finding that it is invariably present amongst the most successful islands suggests an important role. At the end of the day, it may very well be the first requirement for success, not unlike the fuel required by even the most sophisticated and powerful machinery to accomplish any objective.

Endnotes

[1] Abstractly, the value of education has been important for some time. Until recently, it is more likely to have been held as an abstract hope easily rationalized if not achieved. ACTING upon the value is the important point.

[2] 'Backward linkages' are those economic activities which use value from a resource as 'backward' capital inputs into more efficient harvesting i.e. building bigger boats, nets, etc... 'Forward linkages' use value secured from a resource as an input for further economic action upon the resource before export i.e. developing the manufacture of fish processing equipment to increase yield and/or value, 'secondary processing', etc... See M. Watkins, 1969. "A Staple Theory of Economic Growth" in Easterbrook E. T. and Watkins, M. H. (eds.) Approaches to Canadian Economic History. Toronto: Carleton Library. 49-73.

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Royal Commission on Renewing
and Strengthening Our Place in Canada

What Does Newfoundland and Labrador Need to Know About the Knowledge-Based Economy to Strengthen Its Place in Canada?

– Wade Locke and Scott Lynch

March 2003

The views expressed herein are solely those of the authors and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Abstract

This paper reviews the relevant literature, assesses available indicators of knowledge capacity and performance and provides an evaluation of the role that the knowledge economy can realistically play in strengthening Newfoundland and Labrador's position in Canada. We find that knowledge, research and development and innovation activities have significant roles to play in enhancing Newfoundland and Labrador's productivity, competitiveness and economic growth. However, provincial indicators of knowledge capacity and performance are not encouraging. A series of recommendations are suggested as to how the Royal Commission might optimize the role of the knowledge economy in strengthening Newfoundland and Labrador's position in Canada.

Contents

Introduction 143
Knowledge, R&D, Technological Progress and Economic Growth 144
ICT, the Internet and Productivity 146
Private and Social Rates of Return on R&D 152
The Distinction Between Tacit and Codified Knowledge – Is it Important? 157
Proximity: Does Geography Matter? 158
The Role of Universities and Human Capital in a Knowledge Economy 159
The Role of Government in a Knowledge-Based Economy 165
Conclusion and Policy Recommendations 171

Endnotes 175
Bibliography 185
Appendix A: Innovation Activities Taking Place at Memorial University 197
Appendix B: Projects Funded in Newfoundland and LabradorUnder the Canadian Foundation for Innovation: 199
Appendix C: Projects Funded in Newfoundland and LabradorUnder the Atlantic Innovation Fund: 201

Introduction

> *Globalization and the knowledge/information revolution are signaling the advent of a new socio-economic order with profound and pervasive implications for citizens, governments, markets and, therefore, public policy ...to succeed in this new global order, Canada and Canadians must make the transition from a resource- and physical-capital-based economy and society to human-capital-based economy and society.*
>
> *Introduction to A State of Minds*
> *Tom Courchene, 2001*

Given the potential for the knowledge economy to transform social and economic interactions, it is important to consider how knowledge could be exploited to strengthen Newfoundland and Labrador's position in Canada. Therefore, this study investigates ways in which the knowledge-economy could facilitate the *Royal Commission on Renewing and Strengthening Our Place in Canada* in meeting its mandate.

The literature associated with the knowledge economy is so broad and comprehensive that the best any single study could hope to achieve is a superficial summary of the relevant information contained therein. Consequently, this study then focuses on some of the more important economic issues, leaving it to other researchers to address issues that are beyond our areas of expertise. This research and analysis paper reviews the relevant literature, assesses Newfoundland and Labrador's knowledge capacity and performance indicators and combines the informational content in both to provide guidance to the Royal Commission as to the issues that it should consider.

In addition to the introduction, this paper consists of eight other sections. The contributions of knowledge, research and development and technological progress to economic growth and well-being are evaluated in Section 2. This is followed, in Section 3, by an assessment of the connection between the Internet, advances in information and communication technologies and productivity. Section 4 examines the private and social rates of return on research and development to determine the extent to which these activities contribute to economic growth and/or define a facilitating role for government. Following this is consideration of whether the distinction between tacit and codified knowledge is relevant in assessing the potential role of the knowledge economy in strengthening Newfoundland and Labrador's position within Canada. Tacit knowledge, as explained in Section 6, helps define the spatial distribution of economic activities and has direct implications for the role that the knowledge economy can play in strengthening Newfoundland and Labrador's relative position within Canada. Sections 7 and 8 consider the roles of the education sector and the government, respectively, in a knowledge-based economy. The report concludes with a list of policy recommendations that the Royal Commission might wish to consider in fulfilling its mandate. Finally, three appendices are attached to this report – Appendix A lists innovation activities taking place at Memorial University; Appendix B lists projects funded in Newfoundland and Labrador under the Canadian Foundation for Innovation; and Appendix C lists the projects funded in Newfoundland and Labrador under the Atlantic Innovation Fund.

Knowledge, R&D, Technological Progress and Economic Growth

> *In the new, global economy of the 21st century prosperity depends on innovation which, in turn depends on the investments that we make in the creativity and talents of our people.*
>
> *Message from Prime Minister Chrétien*
> *Canada's Innovation Strategy, 2002*

> *...in the global knowledge-based economy, research-based innovation is of critical importance in generating high value-added economic activity, increased wealth, economic diversification, well-paying jobs...*
>
> *Expert Panel on the Commercialization of University Research*
> *Government of Canada (1999)*

Consistent with Prime Minister Chrétien's and the Expert Panel's statements, the role that knowledge and innovation play in promoting economic growth and prosperity in today's economy is often taken on face value, requiring little or no additional explanation.[1] Clearly, knowledge is important and, as suggested in *Canada's Innovation Strategy*, new knowledge is becoming relevant more quickly.[2] As well, it is noteworthy to realize that knowledge gets transformed into new products or processes through the process of innovation.

Our review of a subset of the substantial literature pertaining to the role of knowledge and technological progress in economic growth confirms that there is overwhelming empirical evidence corroborating the hypothesis that growth is tied to technological progress.[3] These empirical findings have demonstrated the pivotal role that knowledge and technology play in explaining growth and development and are bolstered by the newer theoretical developments in the economic growth literature.[4]

Globerman (2000) relates technological change to innovation activities. Innovation activities and the corresponding investment in research and development contribute to productivity through new products and processes[5], which, in turn, translate into enhanced competitiveness, elevated economic growth and a higher standard of living than otherwise would be the case[6]. There is a direct connection, albeit not necessarily a linear one, between the level of innovation within an area and the level of prosperity its residents attain.[7] In this context, it is useful initially to list the factors that, according to Globerman (2000), influence the link between technological change and economic growth. These are:

- The education and skill level of the workforce;
- The extent of competition in domestic industries;
- The openness of the domestic economy to foreign trade and foreign direct investment;
- The strength and nature of intellectual property protection;
- The social infrastructure; and,
- Government policies of various types.

Innovation activities, either through new product developments or via the implementation of new or improved processes, are the end of a longer process, a process that starts from the knowledge or science base within a region or country. It is equally important to appreciate that the primary interface between a university and the economy is through its impact on the knowledge base. This impact is manifested via the generation, acquisition and dissemination of knowledge. Specifically, university researchers perform applied and basic research that contribute to the innovation activity of private sector firms; some faculty members collaborate with established private sector firms or start companies that spin off from their own research activities; and, probably most significantly, universities train students who, in turn, create and apply knowledge in the private sector. Last, but not least, the innovation process helps define and expand the knowledge base that can be drawn upon by university researchers in their future work. In other words, an area's knowledge base defines its capacity to develop new ideas or new ways of doing things that ultimately lead to improvements in productivity and economic growth.

Even though a well developed knowledge base may be a necessary ingredient in the innovation process, its presence does not guarantee that successful innovation will generate either elevated productivity levels or improved well-being. Another significant component of the innovation process is the extent to which an area is willing to invest the necessary resources in research and development activities.[8] For an area to reap the productivity benefits that research and development can bring, the research and development activity must be undertaken at a certain level and for a prolonged period.

According to Locke and Lynch (2001), the rates of transformation of research and development into productivity improvements are not uniform across provinces within Canada. This may be explained by the different composition of research and development within each province and the incentives that underlie business research and development versus research and development activities performed at universities. As a result, research and development activities from different sectors may not be perfect substitutes in terms of their impact on productivity and prosperity.

However, research and development investments are the prerequisites for the generation of inventions and patents, which, themselves, are reflective of the amount of an area's created knowledge and the size of its innovative sector. Yet, the development of patents or inventions is of little consequence if they do not eventually get commercialized – that is, turned into a new product or process. Without the development and marketing of new products or processes, an area will not observe any elevated productivity or improvement in its standard of living.

Even after an idea is turned into a new production process or product, the process of innovation does not stop. Once the innovation has been established within the marketplace, it contributes to the existing knowledge base and the innovation cycle begins anew. That is, knowledge is cumulative! Past knowledge and research makes it easier to develop new technological innovations that will contribute to future productivity.[9] The ideas embodied in current research and development initiatives spill over to other industries through their research and development activities. Thus, the acquisition of knowledge expedites and promotes the development of new knowledge, further increasing productivity in an area. This concept is generally reflected in the statement that the social return on research and development exceeds the private return.[10] This implies that research and development activities in one firm or by a particular researcher affect the innovative activities of other firms or researchers, in effect, bestowing a positive externality on them. The difference between the social and private returns to research and development implies that knowledge and information have public good characteristics,[11] which, in turn, provides one of the primary justifications for public sector support of research and development activities.[12] Whether the knowledge created by research and development activity is a ‘pure" public or "quasi" public good is an open question and depends on a number of issues that are dealt with more extensively below.

ICT, the Internet and Productivity

> *The ICT sector is at the heart of the Internet revolution...It plays a huge enabling role in the economy as its technologies are used in every industry. It is key to Canada's economic growth, acts as a major engine for new high-quality jobs, leads in the area of innovation and R&D, offers sound infrastructure and a strong technological environment and exists in significant domestic cluster.*
>
> *Productivity and Innovation:*
> *A Competitive and Prosperous Canada*
> *Report of Standing Committee on Industry*
> *Government of Canada, 2000*

Although the knowledge economy involves more than information and communication technologies (ICT) and the Internet, these two features, as illustrated by the above quote, often get singled out for special attention in the literature. For example, an OECD (2000) report credits ICT developments with being "the most important source of technological progress in the 1990s"[13] and it highlights "the strong positive impact of ICT on economic growth and performance" in the United States. This is further corroborated by Blinder (2000), which suggests that IT investment in industry is "positively associated" with productivity growth and that the Internet may explain recent productivity growth in the United States. As well, Litan and Rivlan (2001) conclude that the "increased investment in information technology (IT), coupled with the experience gained in using IT, have played a major role in the recent acceleration of productivity growth" in the United States. This point of view is further reinforced by Globerman (2000) and Visco (2000). In fact, Visco (2000) credits the diffusion and increase in efficiency of ICT with the fact that social return on research and development investment is now starting to exceed the costs. However, Oliner and Sichel (1994) challenge the impact that computers have had on productivity. The basis of their argument rests on the small cost share that computers account for in a typical firm's cost structure. A response to this perspective, provided in Bessen (2001), is that Oliner and Sichel (1994) ignore the enabling function that computers perform in facilitating broader organizational changes that improve productivity. In other words, the productive impact of computers is manifested through its impact on the other inputs in the production function. For example, Brynjolfsson and Hitt (2000) and Black and Lynch (2001) provide evidence that the adoption of ICT within firms is associated with organizational changes, which themselves enhance productivity. Finally, some people have predicted that the advancements in ICT and the Internet would mitigate the impact of geography in determining the location of economic activity[14].

Given the importance now being ascribed to the Internet and ICT, it is interesting to ask exactly how the effects of ICT and the Internet are manifested in the economy. A good explanation of this can be found in Litan and Rivlan (2001). Specifically, they highlight that one of the impacts of the Internet on economic transactions is that it moves the economy closer to perfect competition. This causes profit margins to be lower than otherwise and provides firms with incentives to cut costs and be more efficient as they get exposed to competition from all over the world. In addition, Feldman et al (2001) notes that for businesses, the Internet facilitates lower purchasing costs, reductions in inventories,[15] lower cycle times, lower sales and marketing costs and more efficient and effective targeting of customer services and sales materials, while simultaneously allowing customers greater choice, convenience and the potential for increased customization. As well, business research is facilitated by the Internet in that it is easier to find large amounts of information, which can be moved around quickly and cheaply.

Furthermore, as Litan and Rivan (2001) point out, advances in ICT and the Internet, because they permit the inexpensive transmission of a lot of information quickly, allow routine transactions – making payments; processing and transmitting financial information; record keeping; search and analysis; ordering, invoicing and recruiting; getting information to suppliers, employees and customers – to be undertaken with less resources, utilizing Web-based technology[16]. They explain, as well, that manufacturing firms are able to use Intranets and other Web-based technologies to share information easily and cheaply across the organization, cutting the cost and improving the accuracy of accounting, ordering, tracking, invoicing, recruiting and other routine functions[17]. In addition, Web-based technology allows firms to manage supply chains more effectively and reduce inventories. These savings are manifested in the firm through better scheduling, improved information-sharing across the company, or in more efficient interaction with other firms in the supply chain.

As Wolfe and Salter (1997) note, the Internet and developments in ICTs allow for an expansion of the informational or codified component of knowledge. It is easier and cheaper to transmit and copy large amounts of information. Hence, being in a peripheral location is not necessarily an impediment to accessing and sharing information in the knowledge-based economy.[18]

Obviously, the evidence exists to support the idea that the Internet and ICT have had a positive impact on productivity and that there has been an increased ability to transmit and share information. However, this does not imply that geography is no longer a significant influence on economic activity. While this issue is dealt with in more detail below, it sufficient to note that Lacas et al (2001), in a review of the literature, finds that geography, rather than being irrelevant in determining the location of economic activity in a knowledge economy, is becoming more important. Specifically, they suggest that "IT will accelerate the forces of centralization and geographic concentration." In their assessment, this concentrating effect occurs because: *IT increases the possibility of centrally managing operations, especially for activities that involve economies of scale and IT is not a substitute for interpersonal communication, but is, rather, complementary and in fact increases the demand for face-to-face contact.*[19] In other words, the Internet facilitates things being done from a central point and the tacit nature of knowledge necessitates more face-to-face meetings.

What is clear in the literature is that the transformation from a goods-producing economy to a service-producing economy has increased the value of ICT investment, where the role of ICT is one of an "enabler". That is, investment in ICT reduces the costs of processing information, and networking and contributes to increased co-operation between firms. A snapshot of the ICT industry in Canada is given Table 1.

As this data demonstrates, the ICT industry in Canada is concentrated within four provinces - Ontario has the highest concentration of ICT firms with 46.3 per cent; Quebec with 22.4 per cent; British Columbia with 12.4 per cent; and Alberta with 11.9 per cent. Ninety-three per cent of all the ICT firms in Canada are located in those four provinces. The lowest per centage of Canadian ICT businesses in 1999 was in Prince Edward Island (0.18 per cent), which was just behind Newfoundland and Labrador (0.63 per cent). The total per centage of Canadian ICT businesses located in the Atlantic region was 3.56 per cent in 1999. Unambiguously, the ICT industry is under-represented in all of the Atlantic Provinces. For example, Newfoundland and Labrador's share of the Canadian population is approximately 1.8 per cent and it contributes 1.3 per cent of the Canadian economy, yet its share of ICT firms is 0.6 per cent or one-third the size that one might expect on the basis of population. As well, ICT firms compose about three per cent of all firms in Canada, but make up about 1.5 per cent of Newfoundland and Labrador's firms. Again, Newfoundland and Labrador's ICT industry appears to be under-represented in the overall distribution of provincial businesses vis-à-vis the Canadian average.

Table 1: ICT Businesses in the Canada and the Provinces - 1999.[20]

Province	% ICT of Total Firms	% ICT of Canada ICT
Canada	2.98%	100%
Newfoundland	1.45%	0.63%
PEI	1.01%	0.18%
Nova Scotia	1.89%	1.57%
New Brunswick	1.61%	1.18%
Quebec	2.76%	22.40%
Ontario	4.06%	46.29%
Manitoba	1.56%	1.90%
Saskatchewan	0.93%	1.45%
Alberta	2.81%	11.88%
BC	2.53%	12.36%

It is also interesting to examine the geographic distribution of ICT firms within Newfoundland and Labrador and consider how that distribution has changed over time. This is provided in Table 2.

Table 2: Areas With More than 1% of Newfoundland & Labrador's ICT Firms[21]

1998

Community	# firms	% of NF ICT
Grand Falls - Windsor	4	1.22%
Harbour Grace	4	1.22%
Labrador City	4	1.22%
Kippens	5	1.52%
Torbay	5	1.52%
Gander	6	1.82%
Stephenville	6	1.82%
Clarenville	7	2.13%
Paradise	7	2.13%
CBS	9	2.74%
Happy Valley - Goose Bay	9	2.74%
Corner Brook	12	3.65%
Mount Pearl	23	6.99%
St. John's	166	50.46%
Other communities	62	18.8%
Total	329	100.0%

2000

Place	# firms	% of NF ICT
Placentia	4	1.04%
Portugal Cove-St. Phillip's	4	1.04%
Torbay	4	1.04%
Grand Falls - Windsor	5	1.31%
Labrador City	5	1.31%
Gander	6	1.57%
Stephenville	6	1.57%
Paradise	7	1.83%
Corner Brook	9	2.35%
CBS	10	2.61%
Clarenville	10	2.61%
Happy Valley - Goose Bay	11	2.87%
Mount Pearl	38	9.92%
St. John's	192	50.13%
Other communities	72	18.8%
Total	383	100.0%

For example, in 2000, there were 383 ICT firms in Newfoundland and Labrador. The largest concentration was in the St. John's region, which accounted for 67 per cent of the ICT firms in Newfoundland and Labrador. However, the City of St. John's was the base of operations for slightly more that 50 per cent of Newfoundland and Labrador's ICT firms. While the proportion of ICT firms found in the City of St. John's is basically unaffected between 1998 and 2000, the regional share had dropped slightly to 65 per cent. As well, Mount Pearl recorded the largest increase (65 per cent) in the number of ICT firms between the years 1998 and 2000 and Corner Brook, with 25 per cent less ICT firms, saw the largest drop.

As evident from the discussion above, the Internet represents the platform where many knowledge-based activities take place. It is a mechanism through which Newfoundlanders and Labradorians can participate in knowledge-based activities and contribute to innovation.

Household Internet usage worldwide has experienced a phenomenal growth in recent years. By way of illustration, consider that access to the Internet by Canadian households has grown by nearly fourfold from 1996 to 2001.[22] The average Canadian family utilizing the Internet spends 32 hours per week on the Internet – 11.5 hours are devoted to entertainment, 8.8 hours are consumed with work related activities, 8.8 hours are spent communicating with others, 7.6 hours are invested in education activities and 3.8 hours are taken up with e-banking and investments.[23] Access to the Internet has opened up opportunities for Canadian households and for small business owners. Households and businesses can now purchase on-line. They can research issues relevant to their daily operations more quickly and conveniently than in the past. As well, for small businesses the Internet opens new markets, provides improved ways of advertising their services and allows them to sell into markets that otherwise were not accessible to them. Furthermore, the impact of the Internet is being felt in the workplace and throughout the school system.

Household Internet penetration in Newfoundland and Labrador jumped significantly to 46 per cent in 2000.[24] This rate is below the Canadian average, but Newfoundland and Labrador recorded the highest per centage increase of all provinces in that year. Technological change has brought the Internet from universities to households and businesses and Canadians are becoming "connected" at an ever increasing rate. With the explosion of the information highway, the Internet has pervaded all aspects of the lives of Canadian households. But, a digital divide appears to exist between various groups of Canadians and some families may be falling through the "net", being unable to reap the benefits that accrue to others on the digital express.

Much has been written about the digital divide. The concept refers to the increasing disparity between those who have "useful access" to information technology (IT) and those who do not. The literature suggests that access and use of IT is related to social and economic factors. For example, Lynch and Locke (2001) found that usage was sensitive to income, age, education and other family characteristics. They found that well-educated, high-income households, living in urban areas were more likely to take advantage of the opportunites that exist on the information highway. Sciadas (2002), estimated the digital divide by focusing on the relationship between income and Internet use. He found that the gap was closing for certain income groups but the gap between the highest and lowest income groups still exists.

An expanded understanding of the digital divide was presented by Lynch and Locke (2002), where they provided provincial and urban/rural estimates of the digital divide for Atlantic Canada. They found that urban usage for high income/well educated households is higher than the urban estimates for Prince Edward Island, Nova Scotia and NewBrunswick. Estimates for Newfoundland and Labrador were consistently below the estimates of the other three Atlantic Provinces. For example, Newfoundland and Labrador is the only Atlantic province below the Canadian average for estimated urban usage. These results illustrate the existence of a regional urban digital divide, with Newfoundland and Labrador's urban household Internet usage significantly below the other Atlantic provinces. Lynch and Locke (2002) also found that there was a significant decrease in the estimated probability of Internet usage between urban and rural areas. For example, for high income households with university education, estimated Internet usage fell by 33 per cent moving from urban to rural Newfoundland and Labrador. They calculated the urban/rural digital divide as the gap or difference between the probabilities of Internet usage in urban and rural areas.[25] In Newfoundland and Labrador, the urban/rural gaps were much higher when compared to both Canada and the other Atlantic provinces. In fact, some of the gaps increased over time. For example, the gap increased from 24.7 per cent in 1997 to 30 per cent in 1999 for the low income/less than high school category. Their results indicate that the urban/rural digital divide is wider in Newfoundland than elsewhere. Newfoundland and Labrador remains an outlier, with both urban and rural, household Internet usage significantly below the other Atlantic Provinces.

Very little research has been done from an inter-provincial perspective on business Internet usage. There have, however, been a few surveys which have examined Internet usage by firms. For example, estimates from the Canadian Federation of Independent Business indicate that Internet use by Newfoundland and Labrador's small and medium enterprises in 2000 was 15 per cent below the national average.[26]

The estimates of the urban/rural digital divide (see Lynch and Locke (2002)) indicate the existence of a large urban/rural difference in Internet usage and one that has remained relatively constant over time. The concept of Internet usage has no meaning if one does not have access to the Internet.

Lynch and Locke (2002) compiled selected statistics describing broadband connectivity of 1,104 communities representing a population of 2,232,925 in Atlantic Canada.[27] They found that there were significant variations in the provision of services across provinces. Nova Scotia has the highest access rate with 76 per cent followed by both Prince Edward Island and Newfoundland and Labrador with 58 per cent and New Brunswick with 52 per cent.[28] The average size of communities without broadband access ranges from 766 in Newfoundland and Labrador to 1,199 in Nova Scotia. The average community size where broadband is offered is the highest in Prince Edward Island with 15,750 followed by 10,736 in New Brunswick, 8,008 in Nova Scotia and 3,931 in Newfoundland and Labrador. In Newfoundland and Labrador there is a large discrepancy between average community size for those communities that have access through cable (3,905) and those communities that have access by Digital Subscriber Lines (DSL) (19,220). The opposite is true for New Brunswick (29,880 cable versus 10,736 DSL) and the difference is much smaller in both Nova Scotia and Prince Edward Island. As well, how people get on the information highway is different across provinces. In Newfoundland and Labrador, access is primarily through cable, where 71 communities have access through cable and 10 communities have DSL and of those 10 communities, nine also have cable access.[29] More communities in New Brunswick have access via DSL (35) than cable (nine), whereas in Prince Edward Island and Nova Scotia access is more evenly divided between the two technologies.

Given that broadband is expensive and economies of scale apply, large centres with sufficient subscribers will get access first. As such, rural usage is restricted to narrowband access, the type of access that existed in urban communities 10 years ago. The data on access illustrates that broadband technology (more so DSL than cable) is located in larger communities that are not "rural" communities. Some small communities do have access, but they are typically located close to larger communities.

Finally, what is surprising is that average community size, where broadband is offered, is lowest in Newfoundland and Labrador. Newfoundland and Labrador has 28 communities with populations under 1,000 with broadband access. This is seven times greater than New Brunswick (with four communities) and twice as much as Nova Scotia (14 communities). There are no communities with populations less than 1,000 with broadband access in Prince Edward Island. This would suggest that rural access to broadband services is more widespread in Newfoundland and Labrador than other rural areas of Atlantic Canada. One would expect that greater access would translate into greater usage. However, the econometric analysis of usage indicates that the largest urban/rural digital divide was in Newfoundland and Labrador when compared to Canada and the other Atlantic Provinces.[30] The paradigm "build it and they will come" does not appear to apply in rural Newfoundland and Labrador.[31]

Private and Social Rates of Return on R&D

> *R&D is considered one of the most important determinants of innovation since it is used to generate knowledge. The benefits of R&D spill over to other firms and industries contributing to total factor productivity*
>
> *IT and Knowledge-Based Economy Summit*
> *Government of Canada, 1997*

As noted above,[32] there is a substantial body of literature which demonstrates that while research and development activities of firms generates high rates of returns for the firms themselves, the benefits of this activity affect the productivity of other firms. That is, the empirical evidence confirms that research and development activity creates positive externalities, which is another way of saying that the social return to research and development exceeds the private return.[33] Since firms undertaking this activity cannot benefit from these external effects, they do not take them into account in deciding the amount of research and development to perform and, as such, there is an under-investment in research and development. In fact, Griffith (2000) states that one of the main justifications for government subsidies to research and development is that the social return on research and development exceeds the private return.[34] In addition, there is empirical support for the fact that the spillover of research and development activities occurs across geographical boundaries.[35]

The empirical evidence demonstrates that in addition to generating spillovers, research and development activities are associated with very high private rates of return. In fact, these returns seem to be high in relation to other investment opportunities available to the firms. Given these high rates of return, one might expect to observe even higher levels of research and development being undertaken by private sector firms. Consequently, it is legitimate to ask: why profit-maximizing firms do not pursue more of these activities that generate very high rates of return? Possible explanations have been offered by Mohnen (1999), Griffith (2000), Eaton et al (1998) and Feldman (2001). These additional explanations for suboptimal levels of investment in research and development activity by private sector firms are:

- Financial market imperfections, combined with informational asymmetries, result in insufficient access to private sector capital to fund all of the research and development opportunities that have a rate of return in excess of the opportunity cost of capital;
- There may be supply constraints in existence. For example, there is not an infinite supply of research scientists and engineers around to undertake these activities. Consequently, since these specialized skills are required to undertake research and development and may be in short supply, firms have to be selective in which projects are undertaken. This, of course, implies that not all research and development activities will proceed, even if they pass the hurdle rate of return employed by private sector firms;
- Even if the gross-of-tax rate of return to the private sector is high, the presence of high tax rates in a jurisdiction can lower the after-tax rate of return sufficiently to deter investments in some research and development activities; and

- The size of the market in which the firm is operating may be too small for the investor to recoup his/her investment. The extent of this problem is lessened with an elevated export propensity on the part of the firm.

Another possible reason for the lower level of private sector research and development activity is provided by Bessen (2001), who draws attention to the fact that it is not costless for a firm to utilize its own research and development for productive purposes. These costs, which are referred to as "adoption costs" by Bessen (2001), are strong complements to research and development expenditures. It is argued in that study that if adoption costs were included with normal research and development expenditures, then the rates of return estimated for private sector research and development would be more in line with the returns earned on other private sector investments. While this may help explain why private sector research and development activity appears to be out of line with other private returns, it does not diminish the significance of the fact that private returns fall short of social returns for research and development activities. As such, there still may be a role for government in trying to ensure an efficient level of investment by bringing the private and social rates of return back in line.

At this point, it is informative to consider another issue raised in the literature and that relates to the capacity of firms to absorb research and development innovations from outside sources.[36] As described in Martin et al (1996):

> *Individuals need to develop substantial skills and to expend considerable resources to understand codified knowledge...The ability to understand codified knowledge requires organizations to maintain a substantial and often expensive research capability. Without this capability, organizations would be unable to interpret and derive value out of the growing body of codified knowledge...codified knowledge is only capable of transmitting partial information, and the application of that information also requires personal interactions for the transmission of associated tacit knowledge and skills.*

In other words, as Rosenberg (1990) points out, in order for firms to effectively benefit from the diffusion of research and development activities of other firms, they need to possess a certain knowledge base that is fostered by their own research and development activities.[37] That is, the magnitude of the spillover effects of research and development are contingent upon the research and development activities of the recipient firms. The implication of this is that the lack of research and development activities in the private sector limits their productivity growth through direct and indirect mechanisms.[38] The direct effect results because their innovation activity is low and their development of new goods or processes for their own benefits is suboptimal. The indirect effect occurs because they have a diminished capacity to take advantage of research and development spillovers that occur through the activities of other firms. Accordingly, areas characterized by lower research and development are hit by the double whammy – less new goods and processes developed locally and a lower ability to utilize research and development from elsewhere.

The evidence considered above unambiguously highlights the need for some kind of intervention to enhance the research and development activities of local firms. However, there is a literature that casts doubt on the need or effectiveness of government intervention in enhancing research and development activity in the private sector. For example, Mamuneas and Nadiri (1996) and David et al (2000) report that research and development funded through government grants simply crowds-out company private sector activity in many industries.[39] This finding is corroborated by Goolsbee (1998), which finds that government subsidies mainly increase the salaries of scientists and engineers and may not generate any new innovations.

Although these empirical findings tend to call into question the efficiency of government support for research and development, other research suggests that these findings are peculiar to particular programs and do not carry over to all types of support.[40] For example, Feldman (2001) finds that government support, rather than discouraging private sector research and development activity, was integral to the research and development undertaken by private sector firms. This was demonstrated by the fact that these firms would not have proceeded with the research and development activity in the absence of the government support or they would have substantially scaled back their plans. As well, Feldman (2001) finds that government subsidies attract additional funds from other sources for research and development activities within private sector firms. These finding are clearly at odds with the crowding out hypothesis.

The discussion up to this point has focused on theoretical and empirical issues pertaining to research and development and the knowledge economy. It is useful now to consider how Newfoundland and Labrador is performing in terms of indicators of research and development and patent activity. A consideration of these indicators will help determine those areas on which the Royal Commission needs to focus in terms of policy development to strengthen Newfoundland and Labrador's position within the Canadian economy.

Drawing on Locke and Lynch (2001), the following provides an overview of Newfoundland and Labrador's research and development activity. In interpreting these statistics, it is important to understanding that Newfoundland and Labrador's shares of the Canadian population and economic activity in 1999 were 1.8 per cent and 1.3 per cent, respectively.

In 1999, $17.2 billion of research and development was performed in Canada. Newfoundland and Labrador accounted for $125 million, representing a 0.7 per cent share of the Canadian total. When the $125 million was normalized for the size of Newfoundland and Labrador's economy or population, this represented one per cent of its GDP and corresponded to $231 per capita. To provide some context for these estimates, consider that the corresponding data for Ontario were: $8.7 billion in total research and development performed, 50.5 per cent of the Canadian total, representing 2.2 per cent of Ontario's GDP and corresponding to $756 per capita. The Canada-wide averages were: 1.8 per cent of GDP and $565.4 per capita. Clearly, Newfoundland and Labrador's research and development intensity (R&D/GDP) is only 39 per cent of the Canada-wide average and about 32 per cent of that exhibited in Ontario. In per capita terms, Newfoundland's research and development effort is coming in at 41 per cent of the Canadian average or 31 per cent of the Ontario average.

Turning to research and development performed by the business sector in 1999, one observes that $9.8 billion was undertaken across Canada and Newfoundland and Labrador was responsible for only $16 million. This represents 0.2 per cent of the Canadian total, 0.1 per cent of Newfoundland and Labrador's GDP, or $29.6 per capita. By way of comparison, Ontario had: $5.4 billion in research and development performed by the business sector, 55.4 per cent of the Canadian total, 1.3 per cent of their GDP and $472.4 per capita. The Canada-wide averages were: one per cent of GDP and $322 per capita. Controlling for the respective sizes of their economies, Newfoundland and Labrador had only eight per cent of business sector research and development intensity that existed in Ontario and only 10 per cent of the Canada-wide estimate.

In terms of research and development performed by the higher education sector, Newfoundland and Labrador is doing relatively well. For instance, in 1999 there was $5.2 billion of research and development performed by that sector and Newfoundland and Labrador accounted for $79 million or 1.5 per cent of the Canadian total. This corresponded to 0.6 per cent of Newfoundland and Labrador's GDP and or $146 per capita. The corresponding data for Ontario were: $2 billion in research and development performed by the higher education sector, 39 per cent of the Canadian total, 0.5 per cent of their GDP and $174.5 per capita. The Canada-wide averages were: 0.5 per cent of GDP and $169 per capita. Controlling for the size of the economies, one observes that Newfoundland and Labrador's research and development intensity associated with the higher education sector exceeds the Canada-wide estimate and that found in Ontario. However, when this comparison is made in per capita terms, it is clear that Newfoundland and Labrador's research and development effort in the higher education sector falls short of the Canadian average (86 per cent) and of that observed in Ontario (83 per cent).

It is also interesting to examine research and development performed by the federal government. In 1999 there was $1.9 billion of research and development performed by the federal government of which $25 million occurred in Newfoundland and Labrador. This represents 1.3 per cent of the Canadian total, 0.2 per cent of Newfoundland and Labrador's GDP, or $46.2 per capita. The corresponding estimates for Ontario were: $1.1 billion in research and development performed by the federal government, 58.5 per cent of the Canadian total, 0.3 per cent of its GDP and $94.4 per capita. The Canada-wide averages were: 0.2 per cent of GDP and $61 per capita. Relative to the size of its economy, the amount of research and development performed by the federal government is equivalent to that which occurs Canada-wide. However, it does fall short of that which is observed in Ontario, but that reflects the National Capital Region being located primarily in Ontario.[41]

The final sector performing research and development is the provincial sector. In 1999, $0.4 billion of research and development was performed by that sector and $5 million occurred in Newfoundland and Labrador. This represents 1.2 per cent of the Canadian total, 0.04 per cent of Newfoundland and Labrador's GDP, or $9.2 per capita. The corresponding information for Ontario is: $0.16 billion in research and development performed by the provincial sector, 40 per cent of the total, 0.04 per cent of GDP and $14.2 per capita. The Canada-wide averages were: 0.04 per cent of GDP and $13.4 per capita. Newfoundland and Labrador is equivalent to Ontario and Canada-wide when controlling for the size of their respective economies. However, in per capita terms, the research and development performed by the provincial sector in Newfoundland and Labrador was 69 per cent of the Canadian average and 65 per cent of the Ontario average.

Another way of looking at this data is to compare the relative shares of research and development performed in Newfoundland and Labrador by each sector. The relative shares observed in 1999 were:

- Higher education – 63.2 per cent of total research and development;
- Business – 12.8 per cent of total research and development;

- Federal government – 20 per cent of total research and development; and
- Provincial sector – four per cent of total research and development.

The corresponding shares for Canada as a whole were:

- Higher education – 29.9 per cent of total research and development;
- Business – 57 per cent of total research and development;
- Federal Government – 10.8 per cent of total research and development; and
- Provincial sector – 2.4 per cent of total research and development.

What message should be taken from these statistics? Obviously, Newfoundland and Labrador is not performing well in terms of research and development activity and this is particularly true for research and development undertaken by the business sector. As well, it is interesting to note that nearly two-thirds of research and development comes from the higher education sector in Newfoundland and Labrador, while the corresponding figure Canada-wide is 30 per cent and the business sector performs nearly 60 per cent of research and development in Canada, but it only accounts for slightly more than 10 per cent in Newfoundland and Labrador. Given the different incentives for commercializing research and development in the higher education and business sectors, this difference is significant and may have implications for how well Newfoundland and Labrador can do in the knowledge economy.

Another indicator of innovation is patents, which assign legal rights to their owners over particular ideas or knowledge. They represent one way to protect the intellectual property embodied in a new product or process. That is, patents constitute an effective means of protecting and capitalizing on the research and development activities contained within innovative products or processes. Hence, the number of patents issued in a given jurisdiction is an indirect measure of innovation outcomes.[42]

Newfoundland and Labrador is characterized by very low levels of patent activity. For example, over the last 100 years, Newfoundlanders and Labradorians registered between zero and eight patents annually in Canada. Furthermore, the annual pattern of patent registration resembles a random walk. As well, in 1999 Newfoundland and Labrador's share of patents issued in Canada was 0.3 per cent. This was one-sixth of its share of population and one-quarter of its share of Canadian economic activity. When one examines the patents issued in the United States to residents of Canada, Newfoundland and Labrador's relative position does not improve. For example, in 1999 residents of Newfoundland and Labrador registered seven patents in the United States, which represented 0.2 per cent of the patents issued in the United States to residents of Canada during 1999. In other words, patent activity in Newfoundland and Labrador has been historically low and has not improved in recent years. Certainly, Newfoundland and Labrador is falling behind the other provinces in terms of innovation activity and innovation potential. Given the importance of innovation activity to productivity and for an area's standard of living, this should give policy makers cause for concern.

The Distinction Between Tacit and Codified Knowledge – Is it Important?

> *Codified knowledge and tacit knowledge differ importantly in that the former can be written down (in patent, drawing, design, formula...and transmitted) whilst the latter is skill based, talent based, experimental and therefore is difficult to transfer except through demonstration (learning by doing) or appropriation (hiring the person who has a talent or the experience that you want).*
>
> *Some Economic Consequences of Knowledge, Information and ICTs*
> *John de la Mothe, 2000*

Knowledge is more than information. Feldman et al (2001) points out that while data is synonymous with information, it is not equivalent to knowledge. From their perspective, "knowledge exists when an individual understands what to do with the information, what it implies, what its limitation are and how to create value from it." While the Internet and ICT facilitates the transmission of large amounts of information[43], the same conclusion does not necessarily hold for the transmission of knowledge. The translation of information into usable knowledge is not as straightforward as one would think, as it consists of a more complex, cognitive process.

Another way of coming at this issue is to distinguish between codified and tacit knowledge. Martin et al (1996) reports that advances in ICT have facilitated our ability to codify knowledge and, in fact, they have argued that it "has intensified the movement towards the codification of knowledge". However, the tacit dimension of knowledge, as pointed out by Griffith (2000), implies that it takes time and effort to explain this information, and the ideas contained therein, to others so that it can become useful knowledge.[44] Moreover, as Feldman et al (2001) highlights:

> *when knowledge is highly tacit in nature, face-to-face interaction and communication are important to transmit knowledge and geographic proximity may promote the transmission of knowledge. The less codified and the more difficult it is to articulate the knowledge, the greater the need for frequent face-to-face meetings and the greater the resulting degree of centralization in geographic organization.*

That is, the tacit nature of knowledge will help determine whether geography is more important to the location of economic activity in a knowledge-based economy.

In the context of considering the knowledge-based economy, it important to recognize that while, as noted in Feldman et al (2001), knowledge is the most decisive input for innovation, innovation consists of "the ability to blend and weave different types of knowledge into something new, different and unprecedented that has economic value." As Feldman et al (2001) argues:

> *Innovation, at a fundamental level, is a social process that bridges individuals from different disciplines with different competencies, distinct vocabularies,*

> *and unique motives. Innovation involves creativity and is a cognitive process for individuals...the tacit nature of knowledge and the social nature of the innovation process limit the impact of the Internet.*

In other words, the tacit nature of knowledge implies that close proximity might be required to exploit the full potential of knowledge in the new economy. Moreover, this may help explain why the bulk of research and development expenditures in Canada are concentrated in a few provinces and a similar pattern is observed in the United States.[45]

Proximity: Does Geography Matter?

> *Now, the world is moving rapidly into a new era when growth and well-being depend on human capital and innovation...In this era, we – both the Atlantic region, and Canada as a whole – have the opportunity to leave some of yesterday's obstacles behind, and to build on our strengths to hurdle the barriers of today and tomorrow.*
>
> *Leading to Competitiveness: Atlantic Canada's Knowledge-Based Future*
> *Association of Atlantic Universities, 2002*

If advances in ICT and the Internet lessened the impact of geography on the decision of where to locate economic activity, then it would have huge implications for peripheral areas such as Newfoundland and Labrador. Unfortunately, as Houghton and Sheehan (2000) point out, there seems to be an increasing tendency for firms to co-locate. This is explained by the need to share tacit knowledge. Polese et al (2002) and Beaudin and Breau (2001) find evidence that high-technology firms in Atlantic Canada tend to concentrate in urban areas. The finding that geography matters in a knowledge-based economy is not only a Canadian reality. For example, knowledge clusters such as the Silicon Valley in California, Route 128 in Boston, the Wireless Valley in Finland and Oxbridge in England are all example of this phenomenon.[46] As well, Funke and Niebuhr (2000) provide empirical support for the proposition that in Germany, proximity is an important determinant of how knowledge spillovers affect productivity and growth. That is, they find that research and development spillovers are "geographically bounded and constitute a significant source of regional productivity growth". Anselin (1997) finds that knowledge spillovers from universities in the United States extended over a 50 mile range. Feldman and Audretsch (1999) highlight that the geographic area associated with a knowledge spillover is limited. As well, Lacas et al (2001), in their review of the literature, note that "growth activities associated with the knowledge economy are sensitive to agglomeration economies." Looking at knowledge spillover from universities, Jaffe (1989), and Acs et al (1992) find that knowledge spills over from the universities to industries that are located close to these institutions. Katz (1994) demonstrates that university-to-university collaboration is also strongly influenced by geographic proximity.

As Martin et al (1996) suggest, "locational advantages reflect cumulative investments in human and technological capabilities." In other words, geography is no less important in the knowledge economy and may even be more important. This is explained by Martin et al (1996) in the following way:

> *Why does localization occur? The R&D process is characterized by a great deal of interaction between individuals in firms and research institutions such as universities. In order to develop new forms of knowledge or to transfer existing forms of knowledge, research performers and users often need close, personal interaction, given the importance of know-how (i.e., tacit knowledge that cannot be codified). This need to be there forces firms and individuals to congregate in particular localities in order to share and transfer information quickly and effectively. These lines of personal interaction, often informal in character, are important elements of the geographical constraints on innovation.*

That is, while the Internet and ICT make it easier to transfer information, the tacit nature of knowledge still requires face-to-face meetings, which are facilitated by the actors being close to each other. Audretch (1998), Krugman (1998), and Feldman et al (2001) also point to the role of tacit knowledge in limiting the geographic boundary associated with knowledge spillovers.

Does this necessarily imply bad news for peripheral regions such as Newfoundland and Labrador? No, not necessarily, the province can draw upon the knowledge capacity associated with Memorial University. There is no obvious reason why the university could not or should not fulfill the role of enhancing the knowledge base of the province, the benefits of which could spillover into the innovation activities of the private sector. The role of the university in a knowledge economy is dealt with more extensively in the next section.

The Role of Universities and Human Capital in a Knowledge Economy

> *Canadian colleges and universities make significant contributions to Canada's social well-being and economic growth in their deliberate ways. First and foremost, they contribute directly to the nation's economic performance by educating and graduating highly qualified personnel to meet the increasing needs of the workplace; they expand the boundaries of knowledge in all disciplines through basic and applied research, as they develop concrete solutions to selective challenges of industry and government and they contribute to the economic and social well-being of their surrounding communities.*
>
> *A Canadian Innovation Agenda for the Twenty-First Century*
> *Standing Committee on Industry, Science and Technology*
> *Government of Canada (2001)*

As the above quote indicates, the role of universities in today's economy is multifaceted. It is becoming more recognized that post-secondary educational institutions have an increasingly important role to play in promoting and facilitating local economic development in a knowledge-based economy. Furthermore, this role will likely become more important over time. A classic example of the role research institutions can play in today's economy is provided by Saxenian (1994), which demonstrated that the local research infrastructure helped shape the innovation capacity of Silicon Valley and Route 128 in Boston. Miner et al (2001), Feller (1990), Association of Atlantic Universities (1999), Doutriaux and Barker (1995), and Martin and Trudeau (1998)[47] have also highlighted the link between universities and economic development. Other analysts have emphasized the pivotal role that universities play in facilitating and enhancing innovation, productivity and competitiveness of local areas and local firms.[48]

Despite the potential for the higher education sector to contribute to growth and development within the local economy, this may not always be realized.[49] There are many reasons why the post-secondary education system may not generate the kind of impacts on the local economy that are possible. Some of these are:[50]

- It may not be in the university's mission statement to utilize its human capital for the benefit of the local area. That is, it is not one of its stated objectives;
- There may be little experience of university researchers interacting with industry;
- Within an institution, applied research may not be seen as a legitimate function of the university;[51]
- The industrial composition of the area may not be conducive to fully exploiting the potential spillover of knowledge that is possible from a university;
- Labour force characteristics and social capital variables may also inhibit the knowledge transfers from a university to the local area;
- There may be a general apathy on the part of university researchers to form close links with industry;
- The university may not be competitive in terms of what it can offer local industry to deal effectively with their problems;
- Local industry may not have the absorptive capacity to utilize the knowledge spillovers from the university. As noted above, the absorptive capacity of firms is tied to their own research and development activities and if this is low, then they may not be able to benefit from knowledge spillovers from the university;
- Promotion and tenure criteria utilized in universities, by not attaching significant weight to university-industry collaboration, may act as a barrier to economic development benefits that could emanate from the university; and,
- Graduates may be leaving the area to take advantage of employment opportunity elsewhere in the country – the so-called brain drain. Consequently, the knowledge embodied in these students is exploited by other areas.

It is worthwhile considering how Memorial University fares in regard to potential constraints. As its Mission Statement indicates, Memorial University defines as part of its mandate "to undertake research on the challenges this province faces and to share its expertise with the community." However, Locke et al (2002) demonstrate the majority of Memorial University researchers do not have a lot of experience collaborating with industry and a significant per centage of Memorial University's faculty question whether industry collaboration is a legitimate function of a university. There does not appear to be a general apathy on the part of university researchers, rather there appears to be a concern that their areas of expertise may not have any commercial appeal that could be utilized by industry. As well, Locke et al (2002) raise the possibility that university-industry collaboration in Newfoundland and Labrador may be impeded by the promotion and tenure criteria utilized at the university. Sheppard et al (2002) indicate that the local SMEs might not be as receptive to collaborating with the university as might be found in other jurisdictions. This may be explained, in part, by the relatively low level of research and development activities performed by the business sector in Newfoundland and Labrador. Furthermore, as explained in more detail below, the brain drain does appear to be a problem for the Newfoundland and Labrador economy. Finally, there is a concern that Atlantic Canadian universities, while currently competitive, may not be able to contribute fully to the economic development potential of the region in the future.

> *In the knowledge economy, economic competitiveness requires competitive universities. Unless action is taken, Atlantic Canada's universities are unlikely to remain competitive. If the universities lose their best professors, they will lose their best students. The quality of education in Atlantic Canada will drop. Research and technology transfer will dry up. The quality of the workforce, the level of business development, the growth of employment – all will be negatively affected.*
>
> *Association of Atlantic Universities (1999)*

While training students is probably the most significant way in which knowledge gets transferred from the university sector to the rest of the economy, the collaboration between university researchers and industry is another way that the university contributes to economic growth and prosperity in a knowledge economy. It is important to recognize that there are various types of collaborations that exist between universities and industry. The types of collaboration that have been considered in the literature are:[52]

- sponsored research contracts;[53]
- faculty consulting activities;
- informal contacts – either personal friendships[54] or through academic conferences and industry-university networking sessions;
- through students that have been trained by university researchers and absorbed into industry; and
- formal technology transfer agreements such as licenses.

The benefits of university-industry collaboration have been well established in the literature. For example, OECD (2000) has suggested that the interaction between universities and industry is becoming increasingly important for the innovation system itself; Cockburn and Henderson (1998) demonstrate that knowledge spillovers between universities and industry are tied to the degree to which the two collaborate; Adams (1990), Jaffe (1989) and Acs et al (1992) establish the presence of knowledge spillovers between the university and industry and that being close to a university is an important determinant of the extent of these spillovers; Link and Rees (1990), and Acs et al (1994) find that SMEs benefit more from university-based knowledge spillovers than larger firms, which have the capacity to undertake their own research; Mansfield (1991) finds that public sector research has a high return and that a significant amount of private sector products and processes could not have been developed without academic research; Feldman (2001) reports that collaboration between industry and university researchers has had a positive impact on innovation; Globerman (2000) indicates that closer ties between academic and industry research promotes the accumulation and diffusion of technical knowledge; Martin et al (1996) argues that good personal links between industry and public sector are crucial for collaboration between the two and are vital to maintain the connection between basic research and technological development; and Doutriaux (2000) suggests that there is an increased probability of innovation, profitability and growth for firms that collaborate with universities.

The connection between industry and the university sector has been increasing over time in Canada.[55] However, as Doutriaux and Barker (1995) point out, this has come mainly from larger firms. They suggest that "Canadian small- and medium-sized enterprises do not avail themselves of the technology and ideas coming out of universities". As well, Baldwin and Da Pont (1996) find that Canadian manufacturing firms were frequent users of university research.

In addition to collaborating with industry, universities transfer knowledge to the rest of the economy through the knowledge embodied in the students that they educate. As Martin and Trudeau (1998) suggest, firms utilize the knowledge embodied in the students to increase their productivity. In fact, Wolfe and Salter (1997) indicate that "the movement of doctoral and post-doctoral students into industry often provides the most effective method for transferring research results from the laboratory directly to industry." This point is also echoed by Gu and Whewell (1999).

While educating young people is an effective means of transferring knowledge from universities to the rest of the economy, this may not be helpful if these students leave upon graduation.[56] This may be a more important problem in peripheral regions that have been suffering from the so-called "brain drain". Lacas et al (2001) point out that the movement of skilled and educated workers from peripheral regions to central locations tends to accentuate regional disparity. In fact, Polese et al (2002) note that in a knowledge-based economy, the effect of the problem of out-migration of young, educated people is even more important. They suggest that education and the recruitment of skilled labour are integral to participation in the knowledge economy and they offer the following incentives to increase the attractiveness of peripheral communities to the young, educated workers who are also highly mobile:

1. Tuition or debt relief for university graduates who settle in targeted regions;
2. Scholarships for graduate or post-graduate internships in targeted regions;
3. Tax relief for students in post-secondary institutions in targeted areas;
4. Research chairs for institutions in targeted areas; and,
5. Increased focus on knowledge-transfer centers and allied learning, specifically via community colleges…including access to the incentives above.

Another independent effect that the university sector has upon the knowledge economy is through the research activity it undertakes. Wolfe and Salter (1997), in a review of the empirical literature, conclude that "publicly-funded basic research has a positive payoff…ranging from 20 to just under 50 per cent". In addition, Martin et al (1996) highlights the benefits from government-funded basic research. These are:

1. Increasing the stock of useful information;
2. New instrumentation and methodologies;
3. Skilled graduates;
4. Professional networks;
5. Technological problem solving; and,
6. Creation of new firms.

It is also important to recognize that, as noted in Government (1999), the Canadian federal government invests relatively less in university research that is the case in the United States. And, as mentioned in Robitaille and Gingras (1999), the gap between Canada and the United States in resources invested in university research is growing. Doutriaux and Barker (1995) find that public sector research funded by the private sector in Canada is increasing and Doutriaux (2000) notes that there is an increasing concentration of research in the largest, more research intensive universities in Canada. Unfortunately, this list would not include Memorial University.

However, as noted by Nordicity Group Ltd. (1997), Atlantic Canada has a relatively strong publicly-funded research and development infrastructure, but it may be "largely disconnected from the needs of the community." Consequently, one may have to look carefully at what types of research and development are being undertaken if one wishes to devise a strategy for enhancing economic development in a knowledge-based economy through university research.

At this point, it is worthwhile to consider what types of innovation activities are occurring at Memorial University. The most current and comprehensive source of this information is a 2002 report by the Atlantic Association of Universities.[57] The innovation activities listed in that report are provided in Appendix A. As impressive and as comprehensive as this list is, it needs to be considered with caution. First, there is no indication as to how significant these activities are to Newfoundland and Labrador's knowledge economy. Second, given the relatively low level of university-industry collaboration demonstrated in Locke et al (2002) and Sheppard, Locke and Lynch (2002), one ought to ask: how much more extensive could it become with elevated levels of collaboration between the university and industry? Given the dearth of research in this area, it is not possible to answer these questions at this time.

Although it may be overstating the obvious, in our opinion, high levels of education are imperative for the production and use of knowledge, which are prerequisites for success in the innovation process. The education system provides skills to the students and facilitates the generation of ideas that feed into innovation activities. Moreover, the education system defines the capacity of a province to undertake research and provides the skills required to participate in the knowledge-based economy. As well, the education system exposes people to the knowledge-based economy at a very early age.

As pointed out by Lattimore (2002), primary school education has "a positive effect on economic growth rates…and may be an important seed of economic development". While the empirical findings are mixed, there is evidence that education levels and economic growth are positively related.[58]

Along these lines, it is important to consider that Newfoundland and Labrador "leads" the country in terms of the proportion of its population with less than a high school education.[59] In 1990, for example, 38 per cent of the Newfoundland and Labrador population did not graduate from high school, while the corresponding number for Canada was 27 per cent. By 1998 this statistic had improved for all provinces. The Canadian average had fallen by nine per centage points to 18 per cent and the Newfoundland and Labrador rate declined by a similar amount (38 to 29 per cent).

However, the results are opposite for college and trade school graduates. By 1998 Newfoundland and Labrador had shot past all other provinces in terms of the proportion of its population with their highest level of education being college or trade schools. In 1998, for instance, 37 per cent of its population had achieved a trade school or college education. On the other hand, the Canadian average increased from 25 per cent (1990) to 31 per cent (1998).

At the high end of the educational spectrum Newfoundland and Labrador is below the Canadian average. For example, 18 per cent of Canadians had a university education in 1990. However, only 11 per cent of Newfoundlanders and Labradorians had a university education – the lowest in the country. By 1998, all provinces had improved in terms the proportion of its population that had acquired a university education. The Canadian average had increased by five percentage points, but Newfoundland and Labrador increased by only three percentage points (from 11 to 14 per cent). Again, Newfoundland and Labrador had the lowest increase in the country.

Still, in 1997, the proportion of Newfoundlanders and Labradorians possessing a bachelor's or first professional degree was 31.3 per cent, which was above the Canadian average and in the top half of the provinces. Therefore, in terms of the proportion of the population achieving an entry level university degree, Newfoundland and Labrador appears to be doing as well as other provinces.

One of the more important indicators of the capacity of a province to participate in the knowledge-based activities and to facilitate the innovation process is the proportion of its population that holds the more advanced degrees – Master degrees and earned doctorates. Newfoundland and Labrador falls below the Canadian average in terms of the proportion of its population that possessed a Master degree. Still, there is evidence that Newfoundland and Labrador's absolute and relative positions with respect to the other provinces is improving. By 1997 the proportion of its population that possessed a Master degree increased to 4.4 per cent from 3.2 in 1990.

Newfoundland and Labrador was one of the lowest provinces in the country for those who earned doctorate degrees. While the proportion of its population with earned doctorates had increased from 1991 to 1997, Newfoundland and Labrador had not kept pace with what was happening in the rest of the country. For example, in 1991 the Canadian average was 0.4 per cent, but only 0.3 per cent of Newfoundland and Labrador's population had an earned doctorate. By 1997 the Canadian average increased to 0.6 per cent and Newfoundland and Labrador had increased to only 0.4 per cent.

Overall, Newfoundland and Labrador's population exhibits relatively low education levels. For example, Newfoundland and Labrador students underperformed relative to their counterparts in other provinces in terms of School Achievement Indicators Program (SAIP) assessments for mathematics content and Newfoundland and Labrador's relative position had not improved from 1993 to 1997. The education levels of Newfoundlanders and Labradorians, like the rest of Canada, have been improving, but the improvement has been in the more technical trades, rather than at the university level. Again, while the proportion of Newfoundlanders and Labradorians with a university education has been improving, it continues to fall behind the rest of Canada. This is particularly disturbing because the advanced degrees are crucial to success in the innovation process.

There is no doubt that the relatively lower levels of education attained by Newfoundland and Labrador's population is a serious concern, however, the greatest threat to the knowledge base in Newfoundland and Labrador is the out-migration of knowledge-based workers. The younger generation, those between the ages of 15 and 29, possess the greatest amount of knowledge capital compared to all other age cohorts. A Royal Bank analysis of interprovincial mobility of highly skilled workers reported that between 1991 and 1996 seven provinces experienced net out-migration.[60] The province that recorded the largest negative net interprovincial migration was Newfoundland and Labrador. In that period, Newfoundland and Labrador had the highest outflow of university graduates and the highest outflow of knowledge workers.[61] For the years 1996 to 2001, Newfoundland and Labrador lost an average of 6,415 per year due to out-migration and 68 per cent of those individuals have come from the age cohort 15 to 29. In that period, there is an upward trend in those leaving in that age category. For example, in 1996, 58 per cent of those who out-migrated came from the 15 to 29 age cohort. In 2001, 72 per cent of those who left the province were between the ages 15 to 29.[62] An analysis of the migration rates of trade school, college and university students within two years of graduation reveals that Newfoundland and Labrador lost a significant number of graduates within two years of graduation.[63] An analysis of out-migration prepared by the Newfoundland Statistical Agency reported that the proportion of those leaving Newfoundland and Labrador with a university degree has been rising over time. For example, 11 per cent of those who left in 1996 had university degrees whereas 30 per cent of those who left in 2001 held university degrees.[64] While the ability to educate its children is important to the innovation process within a province, a province's ability to retain its population once educated is probably more important. Out-migration reduces the capacity of Newfoundland and Labrador to participate in knowledge-based activities. The "brain drain" is real and represents the greatest threat to the knowledge base in Newfoundland and Labrador.

The Role of Government in a Knowledge-Based Economy

> *As we move into a new information-age economy, the federal role in advancing technology will be increasingly critical. The accelerating pace of technological advance, shorter product cycles and rapid worldwide*

diffusion of technology mean that many companies are finding it harder to invest in long-term R&D than in the past.

Technology and Economic Growth
Producing Real Results for the American People
White House (1995)

The government has several important roles to play in the knowledge-based economy.[65] For example, in Canada both the federal and provincial governments perform research and development; contract private sector firms or university researchers to undertake targeted research on their behalf; fund grants to researchers in post-secondary education institutions and industry who, in turn, pursue their own research priorities; support initiatives to facilitate university-industry collaboration; administer tax credits for firms undertaking research and development; are responsible for providing core funding to universities and for the support of education generally; implement legislation and regulations that affect firms undertaking research and development – this would include patent protection, drug testing regulations, trade agreements, labour market initiatives, etc.; institute mentoring services for small businesses; design fiscal (including general levels of taxation) and monetary policy that affect the general health of the economy; and develop policies to promote entrepreneurism. Obviously, the government has a significant ability to influence research and development activity, in particular, and developments in the knowledge economy, in general.

The real question is whether there is a legitimate role for government to play in fostering research and development activities within the economy. The short answer is yes, in that the benefits of research and technology spillover from the researcher to other firms in society.[66] A further justification for government intervention is found in the literature reviews provided in David et al (1992) and Martin et al (1996). These studies indicate that government funding of basic research has substantial benefits for industrial performance. In addition, Feldman (2001) finds that government awards provide a signaling effect for subsequent research and development investment by other sources. Doutriaux (2000) and Nimmo and Brennand (1999) report that government programs have led to an increase in the industry-orientation of Canadian university research and, as noted above, enhanced industry-university collaboration should pay dividends in the form of elevated productivity levels.

Another relevant question is: can government simply rely on the tax system to generate the needed research and development activity? While an appropriate fiscal system can help, it may not be sufficient in and of itself.[67] In fact, both the federal and provincial governments provide research and development tax credits.[68] It has been estimated that provincial and federal governments research and development tax credits reduce the after-tax cost of $1 of research and development spending to about $0.52 for large businesses and about $0.48 for small ones. This compares favourably with most American states, where the after-tax cost of one dollar of research and development spending varies between $0.52 and $0.60.[69]

The Government of Canada has estimated that one dollar of support through the SR&ED tax credit generates approximately $1.38 of additional research and development spending by firms and causes Canadian real income to increase between $20 million and $55 million per annum.[70] Other researchers report varying estimates for the effectiveness of tax credits. For example, using Canadian data, Dagenais, Mohnen and Therrien (1997) report one dollar of extra research and development expenditure per dollar of tax expenditures; Mansfield and

Switzer (1985) indicate $0.40 of additional research and development is generated for each dollar of tax forgone in research and development tax incentives for Canadian firms; Bernstein (1986), using Canadian data, reports $0.80 for each dollar forgone tax revenue, but he indicates that this could rise to $1.70 when spillovers are considered; Berger (1992), using data from the United Sates, estimates $1.74 additional research and development per dollar for foregone tax revenue; Hall (1993) finds $2 of additional research and development for every dollar of tax revenue forgone; and Hines (1993) reports $1.2 to $1.90 per dollar of tax revenue. While the results are mixed, Mohnen (1999) suggests that the results indicate research and development "tax incentives are not very effective in stimulating more research and development than the amount of tax revenue foregone." However, Mohnen (1999) does argue that even if the stimulative effects of the tax credit are not as large as people might hope, government support of research and development activity is still justified by the spillover effect of research and development; that is, because the social return exceeds the private return.

In addition to how effective the SR&ED tax credit has been, there have been other concerns raised with this program. These include the lack of timeliness in determining the eligibility of certain activities,[71] the non-eligibility of certain expenditures, the compliance costs and the negative taxable income position of some research and development firms.[72] In fact, some of these concerns are serious enough that not all performers of research and development are using the tax credit programs. For example, according to the Survey of Innovation 1999, about 41 per cent of Newfoundland and Labrador's manufacturers involved in research and development activities used federal or provincial research and development tax credits during the period 1997–99. This compared to 59 per cent for Canada as a whole.[73]

Another general set of concerns about government subsidy programs was raised by Morck and Yeung (2001). They argue that subsidy programs aimed at encouraging innovation within firms are not normally successful. They appear to turn entrepreneurs into grantrepeneurs – that is, firms who are innovative in ways of extracting money from the government.

While, within the context of this paper, it is not possible to provide a detailed assessment of federal programs and agencies that support research and development activity in Canada, a list of the more important programs are:

- Industrial Research Assistance Program (IRAP);[74]
- Technology Partnerships Canada (TPC);[75]
- The Scientific Research and Experimental Development (SR&ED) tax incentive;[76]
- National Research Council (NRC);[77]
- National Centres of Excellence (NCE);[78]
- The Canadian Space Agency (CSA);[79]
- The Natural Sciences and Engineering Research Council of Canada (NSERC);[80]
- The Social Sciences and Humanities Research Council of Canada (SSHRC);[81]
- The Canadian Institute for Health Research (CIHR);[82]
- The Canada Foundation for Innovation (CFI);[83]
- Canada Research Chairs program (CRC);[84]
- Trans-Forum;[85]
- Canadian Technology Network (CTN);[86]

- Strategis;[87]
- Smart Communities;[88]
- Broadband for Rural and Northern Development Pilot Project;[89]
- Atlantic Innovation Fund (AIF).[90]

This discussion of government policy and support concludes with a review of the innovation funding received in Newfoundland and Labrador from select federal programs. This information is provided in Tables 3 and 4 below.

For the five years listed, Newfoundland and Labrador received more than $200 million. With the introduction of the AIF funding in 2001 – 2002, Newfoundland and Labrador's share of federal innovation funding rose from 1.7 per cent to 3.1 per cent. That is, Newfoundland and Labrador appears to be getting more than its per capita share of the federal program considered in Tables 3 and 4. In fact, with the exception of the CFI and CHIR, Newfoundland and Labrador is getting more than its per capita share.

Table 3: Provincial Breakdown of Federal Innovation Funding – Select Programs

Millions of Dollars

	NL	PEI	NS	NB	QUE	ON	MN	SK	AB	BC	CAN
IRAP											
1997-98	$3.3	$1.6	$3.7	$3.0	$19.8	$28.4	$2.7	$3.6	$7.7	$13.7	$87.5
1998-99	$3.3	$1.6	$3.7	$3.0	$19.8	$28.4	$2.7	$3.6	$7.7	$13.7	$87.5
1999-00	$3.7	$1.9	$4.1	$4.4	$20.8	$31.0	$3.5	$3.7	$10.1	$14.0	$97.2
2000-01	$3.3	$2.0	$4.3	$3.5	$18.1	$36.2	$2.9	$2.7	$10.7	$12.2	$95.9
2001-02	$3.8	$2.2	$4.7	$3.7	$17.9	$35.0	$2.9	$2.7	$8.6	$14.9	$96.4
NRC											
1997-98	$12.5	$1.8	$12.6	$3.4	$64.5	$291.3	$11.8	$15.2	$8.9	$64.4	$486.3
1998-99	$12.8	$2.7	$13.5	$4.7	$68.2	$303.3	$13.7	$15.4	$12.0	$68.4	$514.8
1999-00	$11.9	$2.2	$16.3	$4.7	$79.2	$303.6	$16.0	$18.2	$11.1	$70.1	$533.3
2000-01	$13.1	$2.2	$21.9	$3.9	$70.0	$343.0	$18.4	$21.7	$11.9	$72.8	$578.9
2001-02	$15.2	$2.5	$22.0	$4.3	$85.2	$359.1	$20.1	$23.7	$14.0	$82.9	$629.2
NSERC											
1997-98	$6.0	$0.5	$13.9	$6.6	$92.9	$144.8	$12.4	$11.2	$41.4	$58.4	$417.1
1998-99	$7.2	$0.6	$13.4	$6.9	$105.0	$170.4	$12.6	$12.5	$48.7	$65.5	$477.1
1999-00	$9.9	$0.6	$17.2	$7.4	$118.9	$180.8	$13.3	$13.7	$52.1	$73.8	$526.1
2000-01	$9.5	$0.8	$16.7	$7.6	$117.5	$188.6	$14.0	$15.1	$56.5	$67.6	$532.9
2001-02	$9.4	$0.8	$18.2	$7.0	$118.0	$185.2	$13.3	$13.2	$55.3	$69.0	$527.6
SSHRC											
1997-98	$0.5	$0.1	$1.9	$0.8	$23.5	$31.9	$2.1	$0.7	$6.7	$11.7	$79.9
1998-99	$0.7	$0.1	$2.1	$0.9	$0.5	$34.5	$1.7	$0.9	$7.1	$12.6	$61.2
1999-00	$2.2	$0.1	$3.3	$1.0	$31.0	$45.3	$2.5	$1.4	$8.6	$16.7	$112.1
2000-01	$2.2	$0.1	$3.7	$1.1	$33.8	$52.8	$3.0	$1.6	$10.8	$17.9	$126.9
2001-02	$2.8	$0.2	$3.8	$1.2	$38.4	$58.2	$3.0	$2.5	$13.6	$18.1	$141.8
CIHR											
1997-98	$1.3	$0.1	$5.4	$0.1	$71.8	$80.8	$7.5	$2.3	$28.2	$19.3	$223.4
1998-99	$1.7	$0.1	$6.0	$0.1	$76.5	$95.8	$8.2	$2.6	$31.7	$22.6	$254.6
1999-00	$1.9	$0.1	$6.7	$0.1	$88.3	$114.4	$8.8	$2.8	$36.0	$24.9	$290.9
2000-01	$2.2	$0.2	$7.6	$0.1	$106.5	$143.9	$9.9	$3.6	$43.4	$27.4	$362.8
2001-02	$3.1	$0.5	$11.5	$0.4	$134.0	$183.0	$14.7	$5.4	$55.0	$42.3	$485.3
CFI											
1997-98	$0.6	$0.0	$0.9	$1.4	$19.2	$21.5	$2.1	$0.3	$5.9	$6.3	$58.0
1998-99	$3.0	$0.2	$8.0	$1.7	$88.6	$172.7	$4.9	$66.2	$30.8	$24.6	$400.7
1999-00	$2.4	$0.5	$6.6	$1.4	$128.2	$153.7	$8.6	$9.2	$21.8	$78.1	$410.5
2000-01	$0.5	$0.2	$2.2	$0.9	$20.9	$36.2	$2.6	$3.2	$9.1	$9.0	$84.8
2001-02	$6.1	$3.8	$8.6	$5.5	$195.0	$227.7	$10.3	$20.2	$106.3	$102.6	$686.1
CRC											
2000-01	$0.0	$0.0	$0.0	$0.3	$3.0	$6.5	$0.6	$0.0	$1.4	$1.5	$13.3
2001-02	$0.3	$0.1	$1.0	$0.9	$15.3	$24.2	$1.7	$1.0	$7.1	$7.9	$59.4
AIF											
2001-02	$45.0	$25.5	$46.6	$37.6							$154.7
Combined											
1997-98	$24.2	$4.0	$38.3	$15.4	$291.6	$598.7	$38.6	$33.3	$98.8	$173.8	$1,352.1
1998-99	$28.7	$5.3	$46.7	$17.2	$358.7	$805.2	$43.9	$101.2	$138.1	$207.4	$1,795.9
1999-00	$32.0	$5.3	$54.3	$18.9	$466.4	$828.9	$52.6	$49.1	$139.6	$277.6	$1,970.2
2000-01	$30.9	$5.6	$56.3	$17.4	$369.8	$807.3	$51.3	$47.8	$143.8	$208.4	$1,795.6
2001-02	$85.8	$35.6	$116.4	$60.6	$603.8	$1,072.4	$66.0	$68.7	$259.9	$337.7	$2,780.5

Table 4: Provincial Shares of Federal Innovation Funding – Select Programs

		NL	PEI	NS	NB	QUE	ON	MN	SK	AB	BC
		Expenditure Shares (Per centage of Canadian Total for Program and Year)									
IRAP	1997-98	3.7%	1.8%	4.2%	3.5%	22.6%	32.5%	3.1%	4.1%	8.8%	15.7%
	1998-99	3.7%	1.8%	4.2%	3.5%	22.6%	32.5%	3.1%	4.1%	8.8%	15.7%
	1999-00	3.8%	2.0%	4.3%	4.5%	21.4%	31.9%	3.6%	3.8%	10.3%	14.4%
	2000-01	3.4%	2.1%	4.4%	3.6%	18.9%	37.7%	3.1%	2.8%	11.1%	12.8%
	2001-02	4.0%	2.3%	4.9%	3.9%	18.5%	36.3%	3.1%	2.8%	8.9%	15.4%
NRC	1997-98	2.6%	0.4%	2.6%	0.7%	13.3%	59.9%	2.4%	3.1%	1.8%	13.2%
	1998-99	2.5%	0.5%	2.6%	0.9%	13.2%	58.9%	2.7%	3.0%	2.3%	13.3%
	1999-00	2.2%	0.4%	3.1%	0.9%	14.8%	56.9%	3.0%	3.4%	2.1%	13.2%
	2000-01	2.3%	0.4%	3.8%	0.7%	12.1%	59.3%	3.2%	3.7%	2.0%	12.6%
	2001-02	2.4%	0.4%	3.5%	0.7%	13.5%	57.1%	3.2%	3.8%	2.2%	13.2%
NSERC	1997-98	1.4%	0.1%	3.3%	1.6%	22.3%	34.7%	3.0%	2.7%	9.9%	14.0%
	1998-99	1.5%	0.1%	2.8%	1.4%	22.0%	35.7%	2.6%	2.6%	10.2%	13.7%
	1999-00	1.9%	0.1%	3.3%	1.4%	22.6%	34.4%	2.5%	2.6%	9.9%	14.0%
	2000-01	1.8%	0.1%	3.1%	1.4%	22.1%	35.4%	2.6%	2.8%	10.6%	12.7%
	2001-02	1.8%	0.2%	3.5%	1.3%	22.4%	35.1%	2.5%	2.5%	10.5%	13.1%
SSHRC	1997-98	0.6%	0.1%	2.3%	1.0%	29.4%	39.9%	2.6%	0.9%	8.4%	14.7%
	1998-99	1.1%	0.1%	3.5%	1.4%	0.9%	56.4%	2.8%	1.5%	11.7%	20.6%
	1999-00	2.0%	0.1%	3.0%	0.9%	27.6%	40.4%	2.2%	1.3%	7.6%	14.9%
	2000-01	1.8%	0.1%	2.9%	0.8%	26.6%	41.6%	2.4%	1.2%	8.5%	14.1%
	2001-02	2.0%	0.1%	2.7%	0.8%	27.1%	41.0%	2.1%	1.8%	9.6%	12.7%
CIHR	1997-98	0.6%	0.0%	2.4%	0.0%	32.2%	36.2%	3.4%	1.0%	12.6%	8.6%
	1998-99	0.7%	0.0%	2.4%	0.0%	30.1%	37.6%	3.2%	1.0%	12.5%	8.9%
	1999-00	0.6%	0.0%	2.3%	0.0%	30.3%	39.3%	3.0%	1.0%	12.4%	8.6%
	2000-01	0.6%	0.1%	2.1%	0.0%	29.4%	39.7%	2.7%	1.0%	12.0%	7.6%
	2001-02	0.6%	0.1%	2.4%	0.1%	27.6%	37.7%	3.0%	1.1%	11.3%	8.7%
CFI	1997-98	1.0%	0.0%	1.6%	2.5%	33.0%	37.0%	3.5%	0.5%	10.1%	10.8%
	1998-99	0.7%	0.1%	2.0%	0.4%	22.1%	43.1%	1.2%	16.5%	7.7%	6.1%
	1999-00	0.6%	0.1%	1.6%	0.3%	31.2%	37.4%	2.1%	2.2%	5.3%	19.0%
	2000-01	0.6%	0.3%	2.6%	1.1%	24.7%	42.7%	3.1%	3.7%	10.8%	10.6%
	2001-02	0.9%	0.5%	1.3%	0.8%	28.4%	33.2%	1.5%	2.9%	15.5%	15.0%
CRC	2000-01	0.0%	0.0%	0.0%	2.3%	22.6%	48.8%	4.1%	0.0%	10.7%	11.5%
	2001-02	0.5%	0.1%	1.6%	1.5%	25.8%	40.7%	2.8%	1.7%	11.9%	13.3%
AIF	2001-02	29.1%	16.5%	30.1%	24.3%						
Combined	1997-98	1.8%	0.3%	2.8%	1.1%	21.6%	44.3%	2.9%	2.5%	7.3%	12.9%
	1998-99	1.6%	0.3%	2.6%	1.0%	20.0%	44.8%	2.4%	5.6%	7.7%	11.5%
	1999-00	1.6%	0.3%	2.8%	1.0%	23.7%	42.1%	2.7%	2.5%	7.1%	14.1%
	2000-01	1.7%	0.3%	3.1%	1.0%	20.6%	45.0%	2.9%	2.7%	8.0%	11.6%
	2001-02	3.1%	1.3%	4.2%	2.2%	21.7%	38.6%	2.4%	2.5%	9.3%	12.1%

By 2002, the CFI-funded projects were worth $1.6 billion in 10 provinces. Newfoundland and Labrador received less than one per cent of the total dollar value awarded and received $12 million. The list of the funded projects is provided in Appendix B.

The objective of the AIF is to accelerate economic development in Atlantic Canada by stimulating the knowledge-based economy. Forty-seven research and development projects, worth $155 million, were funded through the Atlantic Innovation Fund in 2002. Of the total, Newfoundland and Labrador and Nova Scotia captured the largest share of the funding.

Each was awarded $45 million or 29 per cent of the $155 million. A total of $36.7 million was awarded to the non-commercial sector and $8.3 million to the commercial sector in Newfoundland and Labrador. As a percentage of total funding, Newfoundland and Labrador's commercial sector received 18 per cent of the total funding that was awarded to Newfoundland and Labrador. The commercial sector of the other three Atlantic Provinces received a higher per centage, with receiving New Brunswick 35 per cent, Nova Scotia 27 per cent and Prince Edward Island 24 per cent. The list of funded projects is provided in Appendix C.

Conclusion and Policy Recommendations[91]

Knowledge, research and development and innovation activities are significant determinants of the productivity, competitiveness, economic growth and well being that can be achieved by Newfoundland and Labrador. Unfortunately, the province's indicators of knowledge capacity and performance are not encouraging. In particular, research and development activity in the business sector needs to be improved, as does the general level of research and development within the province. While local businesses can benefit via the diffusion of technology from elsewhere, the benefits that result from adopting research and development performed in other jurisdictions is tied to the capacity of the receptor companies to absorb that research and development. The absorptive capacity of businesses is tied directly to their own capacity to undertake research and development. This, of course, magnifies the problems associated with low levels of research and development performed by Newfoundland and Labrador's business sector because the province cannot simply depend on diffusion to overcome all of the problems associated with low levels of domestic research and development.

The Internet and advances in ICT perform an important enabling role in enhancing productivity and growth. Broadband access to the Internet in rural Newfoundland and Labrador needs to be expanded to enable a fuller participation of households and businesses in the knowledge economy. It is also necessary to recognize that Internet and developments in ICT can help, but they cannot be expected to overcome the economic reality of geography and location.

It will still take a concerted effort on the part of government, business, labour and the university to help identify the strengths of the Newfoundland and Labrador economy that offer the best potential for development and progress within the knowledge economy. In particular, general improvements in the economy, which provide real economic opportunities for Newfoundland and Labrador's recent graduates, offer one of the best means of overcoming problems associated with the "brain drain". As well, general improvements in the economy will enable the government to lower taxes in the economy, making Newfoundland and Labrador a more attractive place to invest. Furthermore, general improvements in the educational system is probably the best investment that government can make to improve the long-term position of Newfoundland and Labrador in the Canadian economy.

The university has a special and extremely important role to play in the knowledge economy. It has to be competitive in terms of research and the quality of faculty available to train our students and address local issues. This may require enhanced core funding to enable the university to pay competitive salaries; implementation of provincial grant programs to allow university researchers to access national funds that have matching requirements; and an increase in the faculty complement to enable the university to acquire a critical mass of researchers in targeted areas. As well, there needs to be an improvement in the level of collaboration between Memorial University and the private sector. Finally, more of its intellectual capital ought to be focused on issues that are important to the local economy.

The federal government has an important role to play in the direct funding of research and development through the granting councils. The eligibility requirement attached to innovation programs and tax credits need to be re-evaluated and revised to eliminate subtle biases that reduce the ability of Newfoundland and Labrador to access a larger share of innovation funds. The provincial government needs a comprehensive and coherent policy that deals effectively with any opportunity available through the knowledge economy. It needs to put in place policies that maximize opportunities within Newfoundland and Labrador for its young people. This should help mitigate the significance of the brain drain.

In addition to these general concerns, we offer the following specific policy recommendations to optimize the benefits flowing from knowledge-based activities in the Newfoundland and Labrador economy:

1. Initiatives should be put in place to improve the degree of collaboration between Memorial University, businesses, labour and the provincial and federal governments. For example, this would require:
    - Memorial University to implement an incentive structure for faculty members to collaborate with the other stakeholders and to address problems that are particularly important for the local economy;
    - Joint research forums between university faculty members and researchers from the other stakeholder groups;
    - Increased core funding for Memorial University to enable it to offer competitive salaries with other Canadian universities in order to attract faculty that are of the highest quality; and,
    - Creating and funding a research institute whose mandate is to research issues related to exploiting opportunities created by science, technology and innovation and development relevant indicators to measure Newfoundland and Labrador's progress in the knowledge economy.
2. The federal government should improve the eligibility criteria utilized for its investment tax credit so that more local companies can qualify for the tax credit. As well, innovation funding programs have to be designed so that provinces such as Newfoundland and Labrador capture a greater share of these funds – this would include the CFI, Canada Research Chairs program and funding from the three granting councils. Increase funding to the major granting councils, with specific direction to implement grant competitions and programs that have regionally-based funding targets.
3. The provincial government needs to:
    - Implement innovative funding initiatives to enhance the retention of high-knowledge workers who are in short supply. For example, the shortage of doctors might be helped if the medical school tuition was raised to be equivalent to cost-plus 10 per cent and allowing medical students to apply for loans equal

to this amount, under the condition that 20 per cent of the loan is retroactively converted into a scholarship for each year that the new doctor practices in Newfoundland and Labrador after graduation;

- Stop the out-migration of knowledge workers. This might require the introduction of education subsidies or tax incentives designed to keep knowledge workers in the province;
- Create an explicit strategy designed to take advantage of opportunities created by the knowledge economy;
- Market the positive aspects of knowledge-based activities in schools;
- Encourage life-long learning through education credits;
- Provide subsidies to firms who introduce knowledge-based learning activities; and,
- Target knowledge-based occupations and encourage immigration of outside knowledge-workers from outside of the province or outside of the country.

4. Businesses and government need to examine innovative financing mechanisms that might be adopted to facilitate enhanced research and development within the business sector. This, for example, might include venture capital funds that are targeted at knowledge-based activities.

Endnotes

[1] For example, Blinder (2000) simply asserts that technology is the primary driver of productivity gains, Government of Canada (2002) states that "knowledge is the main source of competitive advantage", OECD (2000) reports that "innovation and technical change are…among the most important drivers of economic growth", Wolfe and Salter (1997) suggests that "knowledge is becoming the most important factor contributing to the health of the economy", the Council of Atlantic Premiers (2001) notes that "research and innovation is a key driving force in the growth of the global knowledge industry", Government of Canada (1994b) reports that "Knowledge is becoming the most important factor contributing to the health of the economy" and Feldman et al (2002) declare that "technology drives economic growth".

[2] Government of Canada (2002a). OECD (2000) also noted that: "Available evidence suggest that interaction between the science system and the business sector is more prominent than in the past and that in many fields, technological innovation makes more intensive use of scientific knowledge."

[3] As the following studies demonstrate, more than 50 per cent of the growth in North America in the last 100 years can be traced to technological progress: Abramovitz (1956), Denison (1962), Denison, E (1979), Denison (1985), Jarbow and Atkinson (1998), Jorgenson and Griliches (1972), Jorgenson, Gallop and Fraumeni (1987), Kendrick (1961), Kendrick (1973), Kuznets, (1971), Solow, (1957). As well, Ten Raa and Mohnen (1999) demonstrate that for Canada, productivity growth in the 1960s and 1970s was explained by technical change, but changes in the terms of trade in the late 1980s accounted for productivity in the 1980s.

[4] Examples of this new theoretical approach can be found in Romer (1990), Romer (1994), Grossman and Helpman (1991) and Aghion and Howitt (1995).

[5] In the context of economics, Globerman (2000) notes that new processes lead to reductions in the costs of production and new products, with their corresponding new or enhanced attributes at similar or lower prices, improving the welfare of consumers. Government of Canada (2001) asserts that "Unquestionably, innovation is the link between science and technology (S&T) and both long-term economic growth and quality of life." As well, Locke and Lynch (2001) find that higher investments in research and development within an area generate improved levels of productivity for that area and Baldwin et al (2000) demonstrated that Canadian firms who perform research and development are four times more likely to introduce an innovation. Other studies that show the link between research and development and productivity are: Centre for the Study of Living Standards (1998), Coe and Helpman (1995), Kao et al (1999), Crisculo and Haskel (2002) and Visco (2000).

[6] Government of Canada (2002) suggests that "innovation means greater competitiveness in markets that are increasingly global. Canada's most productive industries have better productivity performance, grow faster, and generate higher quality, higher paying jobs." As well, Jones and Pandya (1996) suggest that competitiveness at the firm level is tied to "the

capacity of firms to innovate." Morck and Yeung (2001) point out that innovation bestows a competitive advantage on firms by allowing them to develop cheaper ways of producing existing goods so that they can make extra profits on their existing output or develop new and better products which can be sold at a profit because, for a period of time, they alone are the only producer of these new products. In both cases, the basic idea is that innovation gives the innovative firms a degree of monopoly power.

[7] As a further illustration, consider that Orr (2000) demonstrated that the differences in GDP per capita across provinces are explained primarily by variations in productivity exhibited by these provinces. In other words, the differences in the standards of living across jurisdictions can be explained by differences in productivity and differences in productivity can be traced to differences in both the research and development activities and the state of innovation achieved by these jurisdictions. As well, Morck and Yeung (2000) established empirically that an improvement in innovation within a country translates into an increase in its standard of living and Schacht (1996), using international statistics, illustrates the strong inverse relationship between productivity and unemployment.

[8] OECD (2000) finds that "countries with larger increases in the intensity of business R&D to GDP and in the share of business R&D in total R&D ... appear to have experienced a pick-up in productivity growth in the 1990s." The connection between research and development by the industrial sector and innovation in Canada was also noted in Government of Canada (1999) and Globerman (2000). As well, Lejour and Nahuis (2000) find that research and development activity reinforces the benefits countries gain from trade liberalization.

[9] Research and development and the knowledge acquired from the same have a snowball effect. Specifically, the acquisition of knowledge facilitates and promotes the development of new knowledge, further increasing productivity in an area. These points were emphasized by an OECD (1991) report, which stated: *technical change does not occur randomly for two main reasons: (1) in spite of considerable variations with regard to specific innovations, the directions of technical change are often defined by the state-of-the-art technologies already in use, and (2) the probability of technological advances by firms, organizations and even countries is, among other things, a function of the technological levels already achieved by them. In other words,... technical change is to a large extent a cumulative activity.*

[10] The fact that the social return on research and development is higher than the private return is demonstrated by: Bernstein (1996), Bernstein and Nadiri (1988), Bernstein (1989), Bernstein and Nadiri (1991), Goto and Suzuki (1989), Griffith (2000), Griliches (1995), Funke (2000), Mansfield et al (1977), Mohnene (1992), Nadiri, (1993), OECD (2000), Scherer (1982), Scherer (1984), Sveilkauskas, (1981), and Terleckyi, (1974).

[11] Public goods are characterized as being non-excludable and non-rival. It is well established in the public finance literature that goods with these characteristics will be provided at inefficiently low levels, if at all, by the private sector.

[12] Griffith (2000) notes that the difference between the social return and the private return is "one of the main justifications for government subsidies".

[13] However, that study does recognize that some of the changes observed in innovation were outside of the developments that have occurred in the ICT sector. It also acknowledges that "some of the impacts of ICT would probably not have occurred without broader changes in the innovation system."

[14] Polese et al (2002), for example, noted: "The arrival of IT has raised hopes that the tyranny of distance will be reduced in the future, opening up new perspectives for regions that have hitherto been handicapped by their peripheral location."

[15] Consider, for example, how Dell computers are now bought over the Internet. A customer accesses their web site and indicates the specification of the computer that he/she would like to purchase. It is then built and sent to the customer. In this model inventory costs are at a minimum, resulting in both storage cost savings and lower interest costs associated with carrying large inventories.

[16] By way of illustration, Dholakia et al (2001) note that the average cost of a banking transaction falls from $1.27 in a branch to $0.01 on the Internet and Litan and Rivlan (2001) highlight the fact that the cost of processing health insurance claims can fall from $10-15 for paper to two to four cents with web-based processors.

[17] Litan and Rivlan (2001) highlight the benefitd derived by the trucking industry from web-based technology because there is a better match between supplier and demanders and the trucking companies have an enhanced facility to track or reroute shipments to better satisfy their customers' needs.

[18] There is a difference between knowledge and information, which is tied to the distinction between tacit and codified knowledge. The implication of this distinction is dealt with below.

[19] Polese et al (2002) find that advances and ICT and the Internet, rather than reducing the need to meet, increase the need for face-to-face meeting in the knowledge-based economy.

[20] Statistics Canada Establishment Accounts.

[21] Statistics Canada Establishment Accounts.

[22] RBC Financial Group, Canadian Families and the Internet, Jan 23, 2002, www.rbc.com, reports that according to IPSOS-Reid Inter@ctive Reid Report, Q3, 2001, 16 per cent of Canadian adults had Internet access in 1996 and that this has grown to nearly 60 per cent today.

[23] RBC, p.11.

[24] Statistics Canada Household Internet Usage Surveys 1997-2000.

[25] The characteristics that were held constant were family size, employment status, household age and computer ownership.

[26] Canadian Federation of Independent Business, E-Business Update, Internet Use Among SMEs.

[27] Source: Compiled from Maps of Broadband Distribution in Canada, Industry Canada. http: //smartcommunities.ic.gc.ca/bbmaps/canada/map.htm. 2001

[28] The access rate is defined as the total population with broadband access divided by the total population of all the communities in each province.

[29] Adding Labrador's two cable communities.

[30] See Lynch and Locke (2002).

[31] While it is surprising that an increase in access in rural Newfoundland and Labrador has not translated into increased household Internet usage, we do not currently have an explanation for this phenomenon. However, research that we are undertaking in the summer of 2003 should shed some insights on to this issue.

[32] See footnote 10 above.

[33] Griffith (2000) notes that the social rate of return can be as high as 100 per cent. Whether it reaches this level is not the important issue. All that really matters is that the social return exceed the private return as motivation for government intervention and there is a substantial body of literature that demonstrates that this is the case. See, for example, Feldman (2001) or Martin et al (1996).

[34] As Griffith (2000) suggests, the optimal subsidy to research and development would equate private and social rates of return. Since the firm is picking up a lower share of the costs of research and development at the margin, they have an incentive to increase the level of research and development activity. Consequently, if the subsidy is set appropriately, an optimal amount of research and development is performed.

[35] Funke (2001) indicates that the international evidence demonstrates the existence of spillovers across geographic boundaries.

[36] The absorptive capacity of firms, as described in Cohen and Levinthal (1989) and (1990), relates to its ability to identify and use relative external knowledge for its own activity and this appears to be tied to their own research and development intensity.

[37] Mohnen and Hoareau (2002) and Griffith et al (2000) provide empirical support for the absorptive capacity hypothesis. As well, Mansfield et al (1981) find that there are substantial costs associated with copying innovations developed by others.

[38] Griffith (2000) highlights the empirical support for the dual role of research and development – it stimulates innovation and facilitates the adoption of existing technology.

[39] The crowding out occurs because scientists and engineers are in inelastic supply and, as such, subsidies simultaneously increase the demand for their services and increase their rate of remuneration. Consequently, undertaking research and development becomes more expensive and private sector firms reduce the level of research and development that they would otherwise undertake. That is, private sector research and development is crowded out.

[40] See, for example, Jaffe (1997), Trajtenberg (2001), David, Hall and Toole (2000) and Feldman (2001).

[41] It is interesting to note that these figures relate to research and development undertaken by the federal government. A slightly different picture emerges when the research and development funded by the federal government is considered. For example, the federal government funded $3.2 billion in research and development across Canada in 1999 – Ontario received $1.6 billion and Newfoundland and Labrador received $48 million. This translates into 0.4 per cent of GDP in Newfoundland and Labrador and Ontario and about 0.3 per cent Canada-wide. In per capita terms, this represents $88 in Newfoundland and Labrador, $143 in Ontario and $106 Canada-wide.

[42] Of course, the number of patents issued in an area is not perfectly correlated with the amount of innovation activities taking place within that area. For instance, many patents never actually translate into new products or new processes

[43] Feldman, Fuller, Bercovitz and Burton (2001) argue that, with the Internet and advances in ICT, information is now more easily collected, stored, processed, accessed, communicated and used.

[44] An implication of this is that people have to take time to have the tacit aspects of knowledge explained. This means that imitation of research and development can be costly and will have implications for whether research and development imparts knowledge that is a pure public good. This point was reinforced by Wolfe and Salter (1997) when they pointed out that the ability to use information almost always requires knowledge. Specifically, "individuals and organizations require a complex set of skills and must expend considerable resources both to absorb and understand information. Without these investments, firms would be unable to make use of the information available to them. In this respect, information only becomes codified knowledge (and therefore valuable and useful) when users have the skills and capabilities to make sense of it."

[45] Locke and Lynch (2002) present data on the concentration of R&D expenditures in Canada and Feldman et al (2002) indicate that R&D activity in the US is highly concentrated in a small number of states.

[46] Feldman et al (2001) identify these areas as knowledge clusters and they argue that there is a direct relationship between the propensity for industries to concentrate geographically and the knowledge intensity of their activity.

[47] Martin and Trudeau (1998) have, for example, estimated that Canadian university research contributes $15.5 billion in GDP to the Canadian economy and accounts for between 150,000 and 200,000 jobs per annum. Moreover, they link knowledge clusters in Ottawa, Montreal and Saskatoon to local universities.

[48] See, for example, Mansfield and Lee (1996) who demonstrate that firms located close to academic research centers have an advantage over others; Feldman (2001) says exchanges between university and industry scientists enhance innovation; Cohen (1995) reports that a significant determinant of innovation activity is the geographic proximity of the firm to basic science; Jones and Pandya (1996) consider the impact of universities on innovation in Ireland, Association of Atlantic Universities (1999) highlights the connection between a region's economic competitiveness and the academic competitiveness of its universities; Government of Canada (1999) specifies the role of Canadian universities in strengthening

Canada's innovation capacity and productivity; Morck and Yeung (2001) discuss the role that education and human capital have in influencing the pace of innovation; Wolfe (1998) notes that firms located close to centers of academic research have an advantage over other firms; and OECD (2000) acknowledges the role that scientific institutions and human capital play in the process of innovation.

[49] For example, Feldman and Desrochers (forthcoming) note that "despite substantial academic achievements, Johns Hopkins provides an example of a university that has had little direct effect on its regional economy."

[50] See, for example, Feldman and Desrochers (forthcoming), Jones and Pandya (1996), OECD (2000), Doutriaux (2000b), and Locke et al (2002) for illustrations of why universities might not have the economic development impacts that are possible.

[51] Gu and Whewell (1999) note that "the biggest barrier to university-industry collaboration is the culture gap… The culture of university research has a long-term, generic perspective that is important. The culture of industry fosters a shorter term view of knowledge, focusing on solving a particular technical problem in the near future."

[52] For more detail on the types of collaborations that have been considered in the literature, see Feldman (2001), Globerman (2000), Martin and Trudeau (1998) and Doutriaux and Barker (1995).

[53] Gu and Whewell (1999), reporting on a 1995 NSERC and Conference board survey, indicate that 60 per cent of industry respondents and 88 per cent of university respondent agreed that contracting out remains the most common form of research collaboration between university and industry.

[54] Faulkner and Senker (1995) indicate that personal relationships between scientists in industry and the public sector are one of the best ways to facilitate successful collaboration, which builds understanding and trust and leads to long-term contractual relationships. Doutriaux and Barker (1995) also emphasize that personal relations "are often forerunners of direct technology-transfer activities involving the licensing of patents or other intellectual property to industry, or the creation of new business through spin-off companies."

[55] See, for example, Doutriaux (2000) and Doutriaux and Barker (1995).

[56] Beaudin and Breau (2001) note that out-migration of skilled personnel is a very real problem for Atlantic Canada.

[57] Association of Atlantic Universities (2002).

[58] The relationship between general education and growth was raised by one of the referees. Mankew et al (1992), Barro (1991), Krueger and Lindhal (2001), Hanushek and Kimko (2000), Temple (2001) and Frantzen (2000) report that improved education levels lead to higher levels of economic growth. On the other hand, Islam (1995) and Caselli et al (1996) did not find this relationship.

[59] The following analysis draws on Locke and Lynch (2002).

[60] Royal Bank of Canada. Interprovincial Mobility of Highly Skilled Workers. 1999.

[61] The flows of university graduates was measured as the share of the total population with university degrees. Knowledge workers were defined to include workers from the following occupations: management, business, finance, administrative, natural and applied sciences and health. Source: See footnote 60 above.

[62] Source: Statistics Canada, Demographic Division, Economics Statistics Branch. Newfoundland Statistical Agency

[63] See Locke and Lynch (2002).

[64] Source: Newfoundland Statistical Agency. Survey of Out-Migrants: Background Report. October 2002

[65] Griffith (2000) and Visco (2000) list some of the ways that government promotes innovation.

[66] White House (1995) highlights the role of spillovers as a rationale for government intervention in promoting research and development in the private sector. Government of Canada (2001a) also acknowledges that it funds private sector research and development for the same reason.

[67] This point was emphasized in a recent study by the Centre for the Study of Living Standards (1998) where it was suggested: "*the potential for lower corporate taxes to generate additional investment in the Canadian economy appears limited. First, the corporate tax burden in Canada is already low from an international perspective. According to OECD (1995) figures, the burden of corporate income taxes in Canada, which represents 1.75 per cent of GDP, is about two-thirds the OECD average of 2.64 per cent of GDP. Second, Canada's corporate tax burden is competitive with that of our major trading partner, the United States.*"

[68] A description of these tax credits can be found in Warda (1999), Government of Canada (1997), and Government of Canada (2001).

[69] Government of Canada (2002b).

[70] Government of Canada (2001).

[71] Government of Canada (2001).

[72] Government of Canada (2002b).

[73] Government of Canada (2002b).

[74] IRAP helps small and medium-sized enterprises (SMEs) turn good ideas into commercially viable products and services. … IRAP attempts to increase the innovation capabilities of SMEs. The Government of Canada (2001), while concerned with the detail and due diligence in reporting results and describing reasons why government funding is required, considers IRAP to be one of the most effective programs among the federal S&T policy instruments and felt that the federal government should increase the funds going to this program.

[75] TPC is an investment fund through which the federal government provides repayable contributions towards research conducted in Canadian companies in areas of strategic economic importance. By partnering with research companies and altering the time profile of a project's cash flow, TPC encourages Canadian private-sector investment in maintaining and growing the technology base and capabilities of Canadian industry. Government of Canada (2001) was concerned that two-thirds of TPC funds are targeted at aerospace and defense and one-third for enabling and environmental technologies. However, it felt that the federal government should increase flowing to this program. Beaudin and Breau (2001) express concerns about the low level of funding to Atlantic Canadian firms under the TPC program.

[76] The SR&ED tax incentive program offers individuals, corporations and partnerships a tax deduction of up to 100 per cent of qualified current scientific research and experimental development expenditures and eligible capital expenditures. The program allows eligible firms to offset tax owing, and individuals and SMEs may qualify for a cash refund.

[77] Government of Canada (2001) describes the National Research Council of Canada (NRC) as an agency whose vision is to be a leader in the development of the knowledge-based economy through science and technology. The Council operates a network of research laboratories that can collectively boast a wealth of knowledge, expertise and capability of substantial value to Canadian industry. The NRC tries to transfers technologies developed in-house to Canadian companies with the capacity to develop commercial applications that benefit the Canadian economy as a whole and they undertake collaborative research with Canadian companies. Canadian firms are thus able to have access to state-of-the-art facilities that would otherwise be unavailable to them. While the NRC does carry out basic research and development, its principal activity today is bridging the gap, which involves working in partnership with other players – large and small enterprises, universities and other government labs – to not only develop technology but also to translate that technology into products for the marketplace.

[78] The Networks of Centres of Excellences (NCE) program is administered jointly by the three federal granting councils and Industry Canada and it provides a mechanism for bringing together researchers from universities, the private sector and government – often across a number of disciplines – to address research issues of common concern that have economic potential.

[79] The Canadian Space Agency (CSA), as described in Government of Canada (2001), has pursued a mission committed to leading the development and application of space knowledge for the benefit of Canadians and humanity.

[80] NSERC supports research in universities and colleges, research training of scientists and engineers, and research-based innovation. The Council promotes excellence in intellectual creativity in both the generation and use of new knowledge, and it works to provide the largest possible number of Canadians with leading-edge knowledge and skills. NSERC fulfills this mission by awarding scholarships and research grants through peer-reviewed competition and by building partnerships among universities, colleges, governments and the private sector.

[81] SSHRC is the national agency responsible for supporting university-based research in the social sciences and humanities. SSHRC funds basic research – that is, targeted research on issues of national importance – the training of highly qualified personnel and the broad dissemination of knowledge for the benefit of Canadians. Its programs and strategies promote research excellences, innovation, productivity and partnerships with users of research in public, private and community sectors.

[82] The CIHR is the federal agency with primary responsibility for funding, promoting and sustaining basic, applied and clinical research in the health sector. Its mandate spans everything from basic to fundamental laboratory research right up to social sciences as it pertains to health, health services and research. More specifically, its objective is to excel, according to internationally accepted standards of science excellence, in the creation of new knowledge and its translation into improved health for Canadians, more effective health services and products and a strengthened Canadian health care system.

[83] The Canada Foundation for Innovation (CFI) is an independent corporation whose mandate is to strengthen the research infrastructure at Canadian universities, colleges, research hospitals and other not-for-profit institutions to enable them to carry out world-class research and technology development. According to Government of Canada (2001), by investing together with other funding partners from the public, private and voluntary sectors, the CFI helps to ensure that Canadian researchers will have access to state-of-the-art equipment and facilities. The CFI programs are designed to: build Canada's capacity for innovation; attract and retain highly skilled research personnel in Canada; strengthen research training of young Canadians for the knowledge economy; promote networking; collaboration and multidisciplinary approaches to problem-solving among researchers; and ensure the optimal use of research infrastructure within and among Canadian institutions. It should also be noted that Beaudin and Breau (2001) have raised a concern about the low level of funding received by Atlantic Canada under the CFI program.

[84] Under the Canada Research Chairs program, new research positions were created to strengthen degree-granting institutions across Canada – from large universities with research strengths across a variety of disciplines to smaller institutions with more focused research capabilities. The program's key objective is to encourage the building of a critical mass of world-class researchers in order to help Canadian universities achieve research excellence.

[85] Doutriaux (2000) explains that Trans-Forum, launched in 1994 by Industry Canada was "an Internet-based communication and information service which links the industry liaison offices of universities, affiliated research institutes, colleges, technical institutes and centres of excellence across Canada. Its purpose is to enhance technology and expertise transfer from higher education to Canadian businesses…"

[86] Doutriaux (2000) reports that The Canadian Technology Network (CTN), launched in 1994 and maintained by the National Research Council of Canada (NRC), "links federal and provincial government labs and agencies, universities, community colleges, industry associations, technology centres and economic development agencies."

[87] Doutriaux (2002) noted that in 1996 Industry Canada launched Strategis, which is a very comprehensive Internet site for Canadian businesses with detailed information on consumers, companies, business support and financing, trade and investment, technology and innovation. It provides links to a vast array of public sector and private sector resources and contracts directly relevant to established firms and start-ups, and for technology commercialization.

[88] According to their website www.smartcommunities.ca, the Smart Communities program is an Industry Canada program which is designed to stimulate the development and integration of information and communications technologies in new and innovative ways to enrich Canadian communities socially, culturally and economically.

[89] As indicated on their website www.broadband.gc.ca, this Industry Canada program provides funding to publicly available broadband access to Canadian communities, with priority given to First Nations, northern, remote and rural communities which are currently unserved by DSL or cable modem services.

[90] The AIF program, administered under ACOA, is designed to: (1) increase activity in and to build capacity for innovation, research and development (R&D) which leads to technologies, products, processes or services which contribute to economic growth in Atlantic Canada; (2) increase the capacity for commercialization of R&D outputs; (3) strengthen the region's innovation capacity by supporting research, development, and commercialization partnerships and alliances among private sector firms, universities, research institutions and other organizations in the Atlantic system of innovation, and to increase their critical mass; and (4) maximize benefits from the national R&D programs.

[91] It is important that we acknowledge that one of the anonymous referees perceived a potential conflict of interest associated with a paper written by Memorial University faculty members when Memorial University may benefit from the recommendations contained in this report. In response to this concern, we hope that the information contained in this report does benefit both Memorial University and Newfoundland and Labrador. However, since there is no direct personal benefit to be derived by the authors from general improvements in the university or the economy, we do not feel that there is a conflict of interest, perceived or real. Moreover, we wish to state that all recommendations and information provided in this report are substantiated by the evidence available in the literature and were not influenced by our institutional affiliation.

[92] This list of innovation activities was taken from the information provided in Association of Atlantic Universities (2002).

[93] http://www.acoa.ca/e/financial/aif/prolist.shtml

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Appendix A
Innovation Activities Taking Place at Memorial University

- Memorial University is home to the Advanced Computation and Visualization Centre (CVC) – the most powerful research computer system in Atlantic Canada gives researchers access to parallel computing and high-end graphics capabilities. This is useful for numerical modeling and simulation which is an emerging and increasingly popular way for scientists to visualize complex processes or structures.
- Memorial University has expertise in GIS and remote sensing in coastal regions. Its Geographical and Information and Digital Analysis Labaratory (GEOIDAL) has researched the analysis of remotely sensed data for coastal studies and the integration of satellite data and terrain data for terrain analysis.
- The impact and reach of biotechnology is being enhanced through partnerships with BioEast, the provincial biotechnology organization; through linkages to the growing private sector through Seabright Corporation; and through greater collaboration with regional research institutions such as the National Research Council's Institute of Marine Biosciences.
- In July 2002, the Ocean Sciences Centre received AIF support for biotechnology research to investigate and improve the mechanisms of disease resistance in Atlantic Salmon.
- GeoSpatial Research Facility for Terrestrial Ecosystems.
- Department of Chemistry has research programs in fuel cells, nanotechnology (such as molecular magnets, switches and electronics), and novel photochemical devices for artificial photosynthetic applications. The fuel cell research is support by NSERC and Canadian and US companies and has filed for patents related to this technology.
- The Department of Physics and Physical Oceanography has received CFI funding towards the development of a state-of-the art laboratory to study properties of porous semiconductor materials.
- Research at the Centre for Cold Ocean Resources Engineering (C-CORE) includes remote sensing target direction, shore-based ground wave radar technology used for long-range detection of ice hazards, and Coastal Ocean Dynamics Applications Radar (CODAR). C-CORE is also the site of Canada's largest centrifuge facility.
- The Ocean Engineering Research Centre (OERC) is involved in research and development, including consulting services for offshore and shipbuilding industries, scale model experiments, numerical modeling, software development and structural testing.
- J.I. Clark Chair of Intelligent Systems for Operations in Harsh Environments. This Chair builds upon Memorial's strengths in robotics and intelligent control systems for the mining, oil and gas and aquaculture industries.
- Memorial, in collaboration with the National Research Centre's Institute for Marine Dynamics is involved in research on autonomous underwater vehicles.
- Canada Research Chair in petroleum geoscience.

- Petro-Canada Chair in applied seismology.
- Decisionarium – a 3D visualization centre used for imaging of geological structures, and modeling and visualization of hydrodynamic flows.
- The Anakin Project – an attempt to make it easier for health professions in remote locations to update their skills in neonatal resuscitation methods through mechatronics, the science of integrating electronic devices into mechanical ones.
- Telemedicine Centre – involved in research in the use of interactive communications technologies to supplement health and education in remote areas.
- The Faculty of Medicine, through a new web portal – RuralMDcme.ca – offers online courses to rural physicians.
- The Telemedicine Centre, the Division of Educational Technology and the Telemedicine and Education Technology Resource Agency are conducting research on the use of interactive communications technologies to supplement health and education in rural and remote areas.
- Electronic Medicine Strategy – recently received AIF funding to support an initiative to design, develop and deliver online professional development training tools and resources for physicians.
- Hubert W. Kelly Chair in Youth-focused Technological Entrepreneurship.
- SSHRC strategic grant studying the challenges and opportunity of the knowledge-based economy in Newfoundland and Labrador.
- Memorial University is currently involved with more than 230 research grants and contracts with Canadian and foreign firms.
- GENESIS Group is involved in transferring university research to industry and to the marketplace.
- Examples of successful commercialization are: novel gene discovered by Faculty of Medicine which may have potential as a small molecule blocker; Population Genetics Partnership Initiative, Nova Lipids, and A/F Protein.

Appendix B
Projects Funded in Newfoundland and Labrador Under the Canadian Foundation for Innovation:

- GeoSpatial Research Facility for Terrestrial Ecosystems ($670,060).
- Applied fisheries technology research to develop more effective selectivity devices and strategies supporting conservation harvesting goals in Canadian commercial fisheries. ($350,000).
- A Piglet Model to Describe and Quantify the Metabolism of Amino Acids by the Neonatal Gastrointestinal Tract($113,524).
- Music, Media and Place: The Traveling and Translation of "Tradition" ($125,000)
- Marine Bioscience ($147,549).
- Infrastructure for the proposed Chair in Irish Studies, Memorial University of Newfoundland ($50,000).
- Petroleum Reservoir Engineering and Characterization ($125,000).
- Provide new equipment essential to remain in an internationally competitive research position, furnish woodchuck colony with diagnostic and operative equipment, and expand long-term capabilities ($125,000).
- Reservoir Geology Laboratory for data acquisition, data analysis and project documentation ($39,956).
- Canadian Research Chair in North Atlantic Archaeology: Laboratory, Field and Data Management Equipment ($125,000).
- Boreal and Cold Ocean Systems ($97,256).
- Structural and Material Testing for Offshore Applications ($400,000).
- Real Time Ocean Observatory at Bonne Bay Marine Research Center ($1,797,00).
- Center for Chemical Analysis and Applied Research (CCAAR) ($301,379).
- Memorial University Computer Network Upgrade ($822,124).
- Marine Aquaculture Research and Development Facility ($1,895,200).
- Development of a Canadian Earthquake Modeling Capability ($51,256).
- Facility for modeling, simulation and visualization for petroleum geoscience and engineering ($1,542,110).
- Digital Research Centre for Qualitative Fieldwork ($103,766).
- Fishery By-Products Research Centre: Infrastructure for the identification, recovery, and commercial development of marine biomolecules from fisheries and aquaculture wastes ($890,800).
- Memorial University Advanced Computation and Visualization Center ($679,801).
- Integrated environment for climate and oceanic-atmospheric fluid dynamics research ($94,489).
- Laboratory for Brillouin Spectroscopic Analysis and Characterization of Porous Semiconductor Systems ($113,339).

- Equipment for Marine Ecophysiology and Aquaculture Research ($79,356).
- Immunology of HIV Infection (137,000).
- Infrastructure to study the regulation of gene expression by nutrients ($73,825).
- Neural mechanisms regulating dopamine neurons involved in reward and addiction ($100,585).
- Initial Computing Infrastructures and Beowulf Cluster ($75,000).
- Infrastructure for the investigation of low-dimensional magnetic systems as a function of temperature, magnetic field and pressure ($42,917).
- Centre for Environmental Archaeology and Cultural Systems in Central Labrador ($64,039).
- A New Initiative in Fisheries and Marine Sciences at Memorial University of Newfoundland Application of New Acoustic Technologies to the Newfoundland Marine Ecosystem ($367,000).
- Detection of Genetic Variants for Obesity, Diabetes and Other Complex Diseases in the Genetically Homogeneous Population of Newfoundland ($166,931).
- Issues in human physiology and safety in Newfoundland's offshore industries ($185,323).
- Ocean Acoustics Infrastructure ($50,453).

Appendix C

Projects Funded in Newfoundland and Labrador Under the Atlantic Innovation Fund:[93]

- Canadian Centre for Fisheries Innovation - Atlantic-Wide Innovation Initiative for the Seafood Industry ($6,000,000).
- Centre for Cold Ocean Resources Engineering - Engineering Technologies for the Global Resource Markets ($6,000,000).
- College of the North Atlantic - Expand Regional GeoSpatial Innovation Capacity ($3,125,000).
- Memorial University of Newfoundland - Innovative Biotechnology: Enhancing Salmon Disease Resistance ($600,000).
- Memorial University of Newfoundland - Pan-Atlantic Petroleum Systems Consortium ($15,600,000).
- Memorial University of Newfoundland - Support for Atlantic Acquaculture - Broodstock development/fish health ($4,100,000).
- Memorial University of Newfoundland - The Electronic Rural Medicine Strategy ($1,300,000).
- Consilient Technologies Corp - The Consilient Server: A Wireless Network Operations Center ($1,700,000).
- Instrumar Limited - Develop technology for polymer fiber and other industries ($2,900,000).
- Newfound Genomics Inc. - Gene identification, ecogenetics of inflammatory bowel ($1,500,000).
- Northstar Technical Inc. - Aquacomm Project ($2,200,000).

Royal Commission on Renewing and Strengthening Our Place in Canada

Built to Last
Entrepreneurial Success Stories of Newfoundland and Labrador

— P.J. Gardiner Institute for
Enterprise and Entrepreneurship

May 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Executive Summary 207
Introduction 209
Purpose 210
Previous Research on Success Factors 211
Method 213
    Sample Design 213
    Participant Solicitation 217
    Interview Procedure 218
    Coding of Data 218
    Confidentiality of Data 218
    Follow-up Survey by Facsimile 218
Results 219
    Firms Nominated for the Sample 219
    Description of the Final Sample 219
Detailed Analysis 220
    Overviews of Businesses Interviewed 220
    Definition of Success 222
    Performance Measures 224
    Internal Success Factors 225
    External Success Factors 227
    Critical Activities of Success 229
    External Relationships 231
    Internal Challenges and Obstacles 233
    External Challenges and Obstacles 234
    Greatest Challenge 236
    Challenges Facing Newfoundland and Labrador Entrepreneurs 238
    Future Expectations 239
    Future Opportunities for Business 240
    Newfoundland and Labrador: A good place to do business? 241
    Recommendations to Federal Government 242
    Recommendations to Provincial Government 244
    Advice to Business Owners and Prospective Entrepreneurs 245
Conclusions 247

References 255
Appendix A: Letter to Economic Zone Boards 258
Appendix B: Selection Criteria 259
Appendix C: Nomination Form 260
Appendix D: Telephone Solicitation Script 260
Appendix E: Interview Guide 261
Appendix F: Follow-Up Survey 263
Appendix G: Cover Letter 265

Appendix H: Final Sample **266**
Appendix I: Company Profiles **267**

Table of Figures

Table 1: Empirical Research on Success Factors of Canadian SMEs **212**
Table 2: Sample Distribution by Region **219**
Table 3: Sample Distribution by Industry **220**
Table 4: Sample Distribution by Gender **220**
Table 5: Primary Markets **222**
Table 6: Definitions of Success **223**
Table 7: Business Objectives **224**
Table 8: Business Performance Criteria **225**
Table 9: Internal Success Factors **226**
Table 10: External Success Factors **228**
Table 11: Important Daily Activities of Business Owners **230**
Table 12: Important External Relationships **231**
Table 13: Internal Challenges Faced by SMEs **233**
Table 14: External Challenges Faced by SMEs **235**
Table 15: Biggest Challenge Facing Business Owners **237**
Table 16: Challenges Facing Newfoundland and Labrador Entrepreneurs **238**
Table 17: Position of Business in Five Years **239**
Table 18: Potential Opportunities **240**
Table 19: Categorization of Response Tone **241**
Table 20: Positive and Negative Themes of Province **242**
Table 21: Recommendations to Federal Government **243**
Table 22: Recommendations to Provincial Government **245**
Table 23: Advice to Entrepreneurs **246**
Table 24: Characteristics of Successful Firms in Newfoundland & Labrador **250**
Table 25: Major Challenges **252**

Executive Summary

An assessment of this province's strengths and weaknesses cannot be accurately accomplished without evaluating the business community and more specifically entrepreneurial activity in small and medium sized businesses.

Considering the fact small and medium sized businesses account for over 54% of total employment in Newfoundland and Labrador, it is important that the Royal Commission has made it a priority to understand existing businesses in the province and to make a concerted effort to recommend strategies for business growth and expansion. The Survey of Success Stories is a survey of a representative sample of successful small and medium sized businesses, covering all regions of the Province and including both women and men as the principal owners of these businesses. A critical review of SMEs in Newfoundland and Labrador provides crucial information about the provincial business community, internal and external business success factors, business challenges and future opportunities in the province. This report draws conclusions in the form of aggregate data as well as brief individual profiles of the businesses surveyed.

The Survey of Success Stories study consists of the following phases:

- Phase I: Literature Review and Research Design; Questionnaire Design; Sample Identification; and Survey Delivery
- Phase II: Data Analysis and Recommendations

For purposes of designing the sample, it was decided to primarily look to the provincial economic zone boards. These boards support economic activity and have close proximity to businesses in their region. They are aware of business activity in their zone and quite often document businesses success stories and new business growth in the area.

The economic zone boards were asked to consider four broad dimensions of performance when deciding which firms to nominate for the study: Ability to fund growth; Growth; Industry reputation; and Community reputation. Each zone was asked to nominate (at least) three local firms that could be considered exemplary along the performance measures provided. The nomination instructions indicated that only operating, for-profit enterprises should be submitted and that franchises and professional services were specifically excluded. As well, the instructions specified that at least one of the nominations should be a female-owned firm. To support the zone nominations, the provincial Department of Industry, Trade, and Rural Development was asked to submit nominations from its Getting the Message Out program. It is worthy to note that there was substantial overlap between the list of nominees compiled from the submissions of the zone boards and the list submitted by the GMO program.

A sample of 26 firms was selected from a master list of nominated firms. The purpose of selecting 26 firms was to use one as a pilot for the survey and 25 in the final sample. In the end, all 26 firms were included in the analysis. Three levels of stratification were employed to ensure the sample would be representative. First, an important priority of the study was to ensure the sample reflected the geographic diversity of the province. A second goal of the sample selection process was to ensure the sample was representative of a broad range of industries. A third important consideration with respect to sample composition was gender representation.

The interview was semi-structured and consisted of three loosely defined sections. The first section was intended to build rapport and to obtain contextual information on the firm and its history. The second section focused on the factors contributing to or inhibiting success. The final section of the interview dealt with recommendations for the future. A follow-up facsimile survey was also undertaken to gather further information for company profiling.

One of the chief limitations associated with this study is the lack of a comparison group of unsuccessful firms. While the research design permits the identification of common factors amongst the successful firms studied, one cannot conclude with certainty that the factors identified in this study distinguish successful firms from other firms. Consequently, it is notable that the 26 firms participating in the study are distributed across 10 diverse industries. This finding serves as a reminder that successful firms can be found in many industries and are not restricted to a narrow list of industries that may be favoured by policy makers or government programs. It may be, therefore, that exceptional firms will be easier to identify in commonplace, unspectacular industries where strong performance reflects entrepreneurial behaviour and extraordinary competitiveness more than it does industry growth and favourable market conditions.

Successful firms were indeed observed that catered solely to local and regional markets, but it was evident that firms find it necessary to seek new markets in order to grow. The majority of firms already have pursued opportunities for growth beyond the borders of the province and more than a third of the firms are currently serving international markets. Although considered successful by outsiders, the firms in the study are dynamic and continuously evolving. Some firms measure their performance in comparison to competitors, some look to customer feedback to monitor their progress and some firms compete against themselves in order to continually improve. Firms tend to prefer measures that are objective and unambiguous and employ multiple measures that provide feedback on a variety of performance dimensions.

The question concerning internal factors that contributed to success produced 95 items, representing an average of 3.7 factors per firm. Featuring prominently among internal factors contributing to success is a conspicuous attentiveness to the customer. The fact that nearly all of the internal factors represent intangibles points to the knowledge-based nature of the firms in the sample. If internal factors tend to be controllable, factors associated with the external environment are usually beyond the control of any one firm.

External factors contributing to success were mentioned less frequently than internal factors, appearing 57 times. This represents an average of 2.2 factors per firm. Federal programs and agencies, for example, tended to be valued for their funding, and unsurprisingly were usually cited by firms located in growth industries. Firms in the study value information that is specific to their needs and their problems at hand, rather than more generic forms of assistance applicable to a wide range of business situations. Interviewees expressed a desire for more sharing of information amongst firms and for firms in the province to work together. Industry associations, trade shows, and seminars delivered by highly qualified industry experts are especially well regarded by firms in the sample.

The fact that a significant proportion of the province's best-run firms still experience capital shortages emphasizes just how severe the problem of accessing capital is for small and medium-sized firms. This is particularly true for rural firms. In the latter instance there is evidence that firms operating in certain industries (e.g. technology, crafts) benefit from government programs that provide funding, but firms operating in more traditional, less glamorous industries have few sources of capital available to enter new markets, develop new products, or invest in additional capacity, even though they possess a strong track record of success.

Although interviewees tended to view most obstacles as challenges, problems posed by government produced outright anger on occasion. Excessive regulations tend to have a cumulative effect on firms, stifling their daily operations and competitiveness. Firms attributed these to a lack of awareness and understanding on the part of government officials of the demands on firms in the private sector. Signage regulation emerged as a key problem for firms in the tourism industry.

Firms participating in the study were able to suggest a considerable variety of recommendations for both the Government of Canada and the Government of Newfoundland and Labrador. Key recommendations to the federal government centered on the control of the province's resources, support for entrepreneurship and addressing the problem of transportation. In the case of taxation, government should revise the system to reward, rather than penalize, firms that grow. Recommendations to the provincial government followed a similar pattern but also emphasized the promotion of the province, and providing more funding for education. It is worth noting that most of the recommendations to government tended to address the elimination of obstacles rather than direct incentives to business. Many of the firms stressed the fact that they felt handouts to business were counterproductive and detrimental.

If there is one word that describes the participants in this survey, it is passion. Across the board, participants continually identified passion for their businesses.

The overall tone of the interviewees is quite positive when discussing potential business opportunities in the province. They discussed the importance of perseverance in the start up and operation of a business. They used phrases such as hard work, commitment, positive attitude, and dedication to describe the mindset and work ethic that is required for the operation of a successful business. Participants suggested that family support, knowing the business community, and using contacts to the best possible advantage is crucial to the success of a business.

The business owners in the sample look internally at the individual when contemplating the successfulness of a business venture. While the journey of a successful business venture requires many directories, road signs, warning signals, and maps, the critical resource is the attitude, desire, and perseverance of the individual business owner.

Introduction

The mandate of the Royal Commission on Renewing and Strengthening Our Place in Canada (Royal Commission) is to conduct a critical assessment of Newfoundland and Labrador's strengths and weaknesses and to bring forward recommendations on how best to achieve prosperity and self-reliance. In an effort to achieve this mandate, various research projects and consultation initiatives have been undertaken, resulting in a collection of vital statistics and data. The fundamental purpose of the plan is to effectively engage individuals and ascertain necessary resources to develop a blueprint for greater prosperity and self-reliance in the future. (Young, Davis, Igloliorte).

One of the many research initiatives of the Royal Commission is entitled Survey of Success Stories: Newfoundland and Labrador Entrepreneurs. This research is undertaken to draw conclusions about successful achievement by small and medium sized enterprises (SMEs) in Newfoundland and Labrador. The Royal Commission has an intended purpose for this study that coincides directly with their mandate and program goals. An assessment of this province's strengths and weaknesses cannot be accurately accomplished without evaluating the business community and more specifically entrepreneurial activity in small and medium sized businesses.

Businesses are often faced with a wide variety of problems and challenges in their efforts to survive and expand. By developing a better understanding of the needs, issues, and opportunities of SMEs in Newfoundland and Labrador, the Royal Commission is better able to make recommendations to business owners and prospective entrepreneurs in Newfoundland and Labrador. Considering the fact small and medium sized businesses account for over 54% of total employment in Newfoundland and Labrador, it is important that the Royal Commission make it a priority to understand existing businesses in the province and make a concerted effort to recommend strategies for business growth and expansion. (CFIB, part. I)

Purpose

The Survey of Success Stories is a survey of a representative sample of 25 successful small and medium sized businesses, covering all regions of the Province and including both women and men as the principal owners of these businesses. It is a formalized systematic process that uses face-to-face interviews to gather information from businesses to provide to the Royal Commission. A critical review of SMEs in Newfoundland and Labrador will provide crucial information about the business community in Newfoundland and Labrador, internal and external businesses success factors, business challenges and future opportunities in the province.

The Survey of Success Stories study consists of the following phases:

- Phase I: Literature Review and Research Design; Questionnaire Design; Sample Identification; and Survey Delivery
- Phase II: Data Analysis and Recommendations

As indicated, the intention of this research project is to study and evaluate the successful achievement by small and medium sized businesses in Newfoundland and Labrador. The specific objectives of this study are to:

1. Represent a sample of 25 successful small and medium sized businesses
2. Obtain geographic representation across all regions of the province
3. Include both women and men as the principal owners of these businesses
4. Devise an initial definition or identification of "success"

5. Determine as required in consultation with successful businesses and organizations, the factors (managerial, financial, cultural and public programs, etc) that contributed to success.
6. Draw conclusions in the form of aggregate data as well as brief individual profiles of the businesses surveyed.
7. Provide recommendations to the Royal Commission about the significance of the survey and analysis for Newfoundland and Labrador's continuing place with in Canada and for the Province's ability to achieve prosperity and self-reliance.

Previous Research on Success Factors

The search for the factors that cause certain firms to be successful has been likened to the search for the Holy Grail. Nevertheless, the question of why some firms succeed and others fail is important to all who are interested in understanding how an economy creates innovation and wealth, and remains one of the central questions in business research. In certain disciplines such as entrepreneurship and strategic management, explaining variation in the performance of business ventures continues to be a fundamental goal underlying the process of theory development.

Nearly all studies of the factors accounting for the success of small firms have occurred since the 1980s (Hall, 2000). Prior to this, economic research tended to be structured around a "representative firm" model in which firms in the same industry were assumed to use the same production processes, produce identical products and face identical costs (Jensen and McGuckin, 1996). Under this model all firms were assumed to react similarly to external events, and it was the industry or even the geographic region that was treated as the subject of research interest, rather than the individual firm.

In the 1980s, largely due to the pioneering work of David Birch (1987), there emerged a growing recognition of the importance of entrepreneurship and small and medium-sized enterprises (SMEs) to the economies of developed countries. This important discovery rekindled interest in the work of the economist Schumpeter (1942), who described the process of economic growth as one where competition and differences in firms produced economic growth and increases in living standards. According to Schumpeter's view, firms constantly search for new products and new ways of doing things to try to gain competitive advantage. This viewpoint assumes that economic growth is not evenly spread across firms, but rather the result of successful firms replacing less successful firms.

SMEs exhibit greater variance in profitability, survival and growth compared to larger firms (OECD, 1997). Moreover, they play a vital role in economic development in most OECD countries, accounting for over 95 percent of enterprises and 60 to 70 percent of jobs. They are especially important to the creation of new jobs and are considered by most to be the engine of economic growth. In 1998, for example, firms with fewer than 50 employees created three-quarters of new jobs in the province of Newfoundland and Labrador (CFIB, 2002).

A considerable number of studies have been undertaken to examine the factors contributing to the success of SMEs. This body of work has been reviewed on several occasions, including

Cooper and Gascón (1992), Wingham and Kelmar (1992), Storey (1994) and Hanlon (2000). Over 200 potential predictors of performance have been studied empirically (Hanlon, 2000), yet despite the scope of the research effort, overall findings to date generally have been limited and inconclusive. One important exception, however, is a seminal study by Statistics Canada (Baldwin et al., 1994) providing strong evidence of a link between innovation and firm growth; this latter discovery is considered by some to be the single most important finding of recent economic research (OECD, 1996).

Overall, our knowledge of why certain firms are successful is still rudimentary and incomplete. A variety of factors have contributed to this gap in understanding, including variation across samples employed in prior research, the potential impact of idiosyncratic environmental conditions and events, the tendency of entrepreneurs to pursue diverse goals, the diversity of performance measures employed in prior studies, and a heavy tendency by researchers to employ variables that are easy to investigate in large-scale surveys (Cooper, 1994). Although our study cannot claim to overcome all of these problems, its design does indeed benefit from the prior knowledge and identification of these issues. In particular, the decision to employ face-to-face interviews for data collection permitted the investigation of potentially complex variables while minimizing overly restrictive and unrealistic assumptions.

A significant proportion of studies of small firm success factors have been Canadian in origin but there have been very few studies of Atlantic Canada and only two with a focus on Newfoundland and Labrador. Table 1 summarizes the findings of this body of research.

Table 1 – Empirical Research on Success Factors of Canadian SMEs

Author	Geographic Scope	Findings
Ibrahim & Goodwin (1986)	Montreal & New York	• Both entrepreneurial behaviour & managerial skills are key success factors in small business management
Doutriaux (1991)	W. Canada, ON, Que.	• Small start-ups benefit from a single R&D or marketing orientation or no specialization at all
Chaganti et al. (1989)	Saskatchewan	• Key factors: product scope, quality image orientation, innovativeness depended on the nature of the competitive environment
Lorrain & Dussault (1988)	Québec	• Key factors: business & managerial ideology, production behaviour, finance behaviour, business knowledge before start-up
Baldwin, Chandler & Papailiadis (1994)	Canada	• Innovative activity is the strongest predictor of success • Management, marketing and skilled labour are important in explaining growth
Johnson, Baldwin & Hinchley (1997)	Canada	• The typical survivor is small & stable, growing at 6.6% per year • The typical survivor does not rely on a business plan, and does rely on the domestic marketplace • Higher growth firms invest in innovation & human resources • Faster growth firms focus less on price

Lefebvre and Lefebvre (2000)	Canada	▪ Building stronger technological & non-technological capabilities may be more important to export performance than operating in a high knowledge sector ▪ R&D and knowledge intensity are strong determinants of export performance
Brown & Hanlon (2002)	Canada	▪ 47 behaviours reflecting 9 behavioural dimensions are associated with entrepreneurial success in new ventures
O'Farrell (1990)	Nova Scotia	▪ Key factors: product/market strategy, quality control, plant productivity, R&D commitment, personnel skills, # of local competitors
Hanlon & Barnes (1992)	Atlantic Canada	▪ 22 variables differentiated between High, Low & Moderately successful firms ▪ These variables reflected personal characteristics of the owner, firm characteristics & behaviour, and environmental characteristics
Roskin & Pynn (1987)	Newfoundland & Labrador	▪ 9 factors: management experience, equity base, entrepreneurial drive, work ethic, formal education, market opportunity, financial institutions, economic climate, government policy
Hanlon (2001)	Newfoundland	▪ Ambitious visions and the quality and quantity of resources provided by supporters inside and outside the firm account for 22-30% of new venture performance

Method

Sample Design

A variety of factors were taken into consideration when designing the sample for this survey. These are outlined in detail below.

Selecting a Research Population

For the purposes of the study we were interested in investigating independently owned, for-profit, operating SMEs with head offices in Newfoundland and Labrador. Consistent with OECD usage of the term, an SME was defined as a business enterprise having fewer than 500 employees. Holding companies were specifically excluded from the study. After consultation with representatives of the Commission, it was also decided not to include franchisees and professional services such as legal and medical practices.[1]

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[1] Franchisers were still eligible to participate despite the fact that none were included in the final sample.

The Sampling Frame

One of the key issues in designing the research was how to identify a list of "successful" candidate firms from which to draw a sample that could be considered representative. Prior research indicates, for example, that samples comprised of winners or nominees of public awards for entrepreneurship or business performance can often be biased as a result of the nomination process (Hanlon, 1999). Compounding the problem was the fact that performance data for small firms is usually held solely by the entrepreneur and is not publicly available.

It was decided to request the 20 economic zonal boards in Newfoundland and Labrador to nominate firms within their zones for inclusion in the study. This strategy offered two advantages. First, soliciting nominee firms from zone boards across the province provides an intrinsic source of geographic representation. Second, zonal boards are arguably in a superior position to identify exemplary firms at the grassroots level. Economic zone boards were established to support economic activity and have close proximity to businesses in their region. They are aware of business activity in their zone and quite often document businesses success stories and new business growth in the area.

What Constitutes a Successful Firm?

One of the most important decisions in the research project required determining the basis on which firms should be considered successful. Even in the case of large firms, there can be controversy over the selection of appropriate measures of performance. Financial and market performance measures commonly have been used but even these have been criticized by some as being too narrow. In the case of small, private firms the difficulty is compounded by the fact that information concerning a firm's performance is usually possessed solely by the entrepreneur and is not in the public domain.

Over 40 measures of performance have been observed in prior research on small firm success factors (Hanlon, 2000). In general, it appears that objective and subjective measures have enjoyed roughly equal acceptance and that multiple measures are used nearly as frequently as single measures (Hanlon, 2000). Multiple indicators are generally preferable for two reasons. First, it has been argued that organizational effectiveness should be assessed either in terms of the firm's ability to satisfy numerous constituencies, including the owner, customers, employees, creditors, suppliers, government and the community (Pickle and Friedlander, 1967; Robinson, 1983), or in terms of its ability to meet a variety of organizational goals (Etzioni, 1960). Both of these frameworks suggest that performance is multidimensional in nature. A second advantage stems from the fact that predictor variables correlated with performance may change as the definition of performance changes.

Good performance measures should be capable of reflecting the potential for purposeful (i.e. goal-oriented) behaviour (Downey and Ireland, 1988). This is especially true in the case of research on new and small businesses, where differences among founder motivations and founder objectives have been well documented. Here goal divergence can be expected to be greater than in the case of large, publicly traded firms because of pressures the latter group faces to exhibit profits in the short term.

In line with the foregoing observations, the study employed multiple indicators of performance. Specifically, we asked the economic zone boards to consider four broad dimensions of performance when deciding which firms to nominate for the study: ability to fund growth, growth, industry reputation, and community reputation. In addition, we supplied four examples of concrete measures for each dimension, providing a total of 16 individual criteria on which potential nominees could be evaluated during the course of the nomination process. These are listed below, along with the broader performance categories they reflect:

1. **Ability to Fund Growth**, *as measured by*:
    - New Investment
    - Ability to Attract Outside Capital
    - Efficiency
    - Profitability
2. **Growth**, as *measured by:*
    - Revenues
    - Job Creation
    - New Products & Product Lines
    - New Market Segments
3. **Industry Reputation**, as measured by:
    - Industry Leadership & Recognition
    - Market Share
    - Product/Service Quality
    - Customer Satisfaction
4. **Community Reputation**, *as measured by:*
    - Employee Satisfaction
    - Community Support & Recognition
    - Stakeholder Relations
    - Public Image

The economic zone boards were asked to take the above criteria into account when identifying appropriate nominees to participate in the study (Appendix B). They were not, however, required to rate or rank their nominees in terms of individual performance. On the one hand our goal was to ensure the selection process would be undertaken in a thoughtful manner, but we did not want the process to become excessively arduous nor could we afford, given the tight time frame surrounding the study, to incur significant delays as a result of zone boards collecting formal data to support their decisions.

Procedure for Nominating Successful Firms

A letter (Appendix A) describing the study and soliciting the names of successful firms was sent by email to the executive director of each of the 20 economic zone boards in Newfoundland and Labrador. This email request was forwarded on December 12th, 2002 and was accompanied by an attachment in MS Word format, consisting of a set of instructions (including performance criteria to be considered) for nominating exemplary firms (Appendix B) and a copy of the form to be used when submitting nominations (Appendix C).

Each zone was asked to nominate (at least) three local firms that could be considered exemplary along at least several of the 16 performance measures. The nomination instructions indicated that only operating, for-profit enterprises should be submitted and that franchises and professional services were specifically excluded. Information requested for each nomination on the nomination form included firm name, community, name of the individual owner, and industry. The instructions specified that at least one of the nominations should be a woman-owned firm.

Within 2-3 days of the email request a follow-up phone call was made to ensure the earlier email had been received and to request a prompt response to our solicitation.

A Second Source of Firm Nominations

We also asked a senior representative of the Government of Newfoundland & Labrador's Getting the Message Out program (Department of Industry, Trade & Rural Development) to nominate potential firms across the province. This representative was sent a copy of the documentation received by the economic zones, including the email letter explaining the purpose of the study (Appendix A), the instructions for nomination firms (Appendix B), and the nomination form (Appendix C).

Sample Selection

The sample of 26 firms was selected from a master list of nominated firms that was compiled from the nominations submitted by the zonal boards and by GMO. The purpose of selecting 26 firms was to use one as a pilot for the survey and 25 in the final sample. In the case of large samples it is usually desirable to employ some form of random selection. In the case of small samples, however, other techniques are often better suited to ensuring adequate representation. Small samples have the advantage of permitting extensive and in-depth exploration of the phenomena under investigation; as noted earlier, these were desirable attributes in the context of the current study.

Three levels of stratification were employed to ensure the sample would be representative. First, an important priority of the study was to ensure the sample reflected the geographic diversity of the province. Although roughly half of the businesses in Newfoundland and Labrador are located in the Avalon region, it was decided to include a smaller proportion of firms on the Avalon in order to include a larger, more diverse base of firms located in rural and remote regions of the province. Some initial consideration was given to drawing the sample from five regions in the province (Avalon, Eastern, Central, Western and Labrador), but this strategy was subsequently abandoned in favour of a more rigorous and more costly approach that entailed obtaining representation from each of the 20 economic zones located across the province. An objective of this phase was for the sample to include at least one firm from each of the 20 economic zones. Zone 19, Capital Coast Development Alliance, was expected to have additional representation due to its substantially larger size.

A second goal of the sample selection process was to ensure the sample was representative of a broad range of industries. The concern here was mainly due to a desire to ensure that the results of the study would not be limited to one or two industries (e.g. retail and personal services), which could easily dominate the sample. Such industries tend to contain a high proportion of the firm population and consequently could have severely limited the generalizability of a small sample in the absence of specific actions to ensure broad industry representation. Although the zonal boards were not asked to employ industry criteria in nominating firms, they were asked on the nominating form to indicate the industry in which each of the nominated firms operated. This information subsequently permitted industry to be taken into account when the decision was made by the researcher as to which nominated firms would be included in the final sample.

A third important consideration with respect to sample composition was gender representation. Although women-owned enterprises still constitute a minority of existing firms, the proportion of women-owned start-ups is growing at a rate roughly twice that of start-ups. The main objective here was to attempt to ensure that women would constitute a significant proportion of the final sample. No fixed target was set, but it was believed that a sample in which at least one-third of the members were women would facilitate any subsequent analysis of gender-related concerns. Given a sample size of 25, this suggested a target of approximately 8-10 women. In order to ensure that adequate numbers of women would be nominated, the zonal boards were instructed to ensure that at least one of the three firms they nominated was owned by a female entrepreneur.

There was substantial overlap between the list of nominees compiled from the submissions of the zonal boards and the list submitted by the GMO Program. During the process of selecting firms for the sample an effort was made to give preference to firms that had been nominated by both sources. This objective, however, was considered to be a lower priority in comparison to the stratification targets described above.

Participant Solicitation

Following the finalization of the sample selection, prospective survey participants were contacted by telephone during the period January 9th - January 28th, 2003 to solicit their participation in the study. The researcher described the project, purpose of the study and indicated that s/he had been chosen to participate in the study. A copy of the telephone script is located in Appendix D. In cases where telephone contact was unsuccessful, three separate attempts on different dates were made before dropping the firm from the sample and substituting a new candidate.

Those agreeing to the study were informed of the confidentiality procedures in place and the estimated duration of the interview and were asked for permission to audio record the session. This was followed by a request for an appointment to conduct the interview.

Ethical issues such as confidentiality, security, and other related concerns not addressed at the time of solicitation were addressed at the start of the interview session. A summary paragraph outlining these issues is included in the interview guide (Appendix E).

Interview Procedure

Semi-structured interviews were used to collect the data. A copy of interview guide is located in Appendix E. The interview consisted of three loosely defined sections. The first section was intended to build rapport and to obtain contextual information on the firm and its history. The second section focused on the factors contributing to or inhibiting success. The final section of the interview dealt with recommendations for the future.

The pilot interview was carried out during the week of December 30, 2002. Given the fact no major changes were made to the interview guide as a result of the pilot, this interview was included in the final analysis of survey results. The remaining 25 interviews were carried out during the weeks of Jan 16th to Feb 6th 2003. Twenty of these were conducted in person, and with one exception were held at the interviewee's place of business, including locations in Goose Bay and Labrador City. The five remaining interviews were conducted by telephone. These telephone interviews were only utilized where distance posed a severe obstacle (four instances) or where it was necessary to reschedule an interview (one instance).

One trained researcher conducted all 26 interviews. A typical interview lasted approximately one hour in duration. A portable tape recorder was used to aid the researcher in gathering all the required data.

Coding of Data

Each tape-recorded interview was subsequently transcribed. Because the data was qualitative in nature, a careful system of coding was employed to organize and categorize the responses to each interview question. To maintain consistency only one researcher was assigned to code the transcripts. However, an additional experienced researcher also independently coded several interview transcripts and inter-rater reliability was assessed in order to ensure the validity of the coding procedures.

Confidentiality of Data

Prior to forwarding the interview cassettes to outside transcribing professionals, all identifying information concerning the name of the individual respondent and firm was removed from the tape and substituted with an identifying letter. Consequently the anonymity of the participants was preserved. The interview guides and transcripts have been stored in a secure location.

Follow-up Survey by Facsimile

A final step in the research process consisted of sending a two-page survey (Appendix F) to each participating firm by facsimile. This brief survey was designed to collect demographic and other descriptive data on the participating firms, and was accompanied by a cover letter (Appendix G) thanking the firm for its participation in the study. Firms were requested to return their completed survey by facsimile. Follow-up telephone calls were made to encourage prompt response.

Results

Firms Nominated for the Sample

A total of 65 firms were nominated by 19 of the 20 economic zone boards. In addition, the request to the GMO program resulted in a total of 35 nominations, including 10 firms that had also been nominated by the zonal boards. The considerable overlap between the lists of nominees from the two sources provides a useful indication of the validity and effectiveness of the sampling process.[2] Given the existence of thousands of small firms across the province, reaching independent agreement on a significant proportion of nominated firms can be considered a positive result.

Description of the Final Sample

Attempts were made to contact a total of 33 firms. Out of these 33, 29 businesses were contacted successfully. Of these firms, three could not be scheduled in the window available. With only one refusal, an effective response rate of 86.2% proves to be very effective and positive for this study. This favourable response to the study had resulted in a final sample consisting of 26 successful small and medium enterprises can be found in Appendix H. A breakdown of this sample is summarized in the tables below.

Table 2 – Sample Distribution by Region

Region	%	# of Firms
Avalon	30.8%	8
Eastern	7.7%	2
Central	15.4%	4
Western	26.9%	7
Labrador	19.2%	5
Total	**100%**	**26**

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[2] During the course of compiling the sampling frame it was also learned that the economic zone boards or the GMO program had also nominated 10 of the 23 businesses that had been visited previously by the Royal Commission.

Table 3 – Sample Distribution by Industry

Industry	%	# of Firms
Retail	11.6%	3
Industrial Equipment & Wholesale	7.7%	2
Personal Services	19.2%	5
Manufacturing	23.1%	6
IT & Communications	7.7%	2
Mining & Oil	3.8%	1
Fisheries & Aquaculture	7.7%	2
Agriculture	3.8%	1
Business Services	7.7%	2
Other	7.7%	2
Total	**100%**	**26**

Table 4 – Sample Distribution by Gender

Gender	%	# of Owners
Male	60.0%	14
Female	40.0%	12
Total	**100.0%**	**26**

In an effort to profile the participating businesses, the first question in the interview guide asked specific information dealing with the activities of the business. In addition, the follow-up survey by facsimile requested the business owners to provide further information on their business operations. While responses to the facsimile survey were not received from all businesses, 18 of the business owners did complete and return the questionnaire. The profiles of each of the 26 businesses are outlined in Appendix I.

Detailed Analysis

Overviews of Businesses Interviewed

"I love this shop. Everything about it . . ."

If there is one word that sums up or describes the participants in this survey, it is passion. Across the board, participants continually identified passion for their businesses. They hold a special fondness and appreciation for their operations that clearly influences their commitment and perseverance.

There are many commonalities in this sample of 26 business owners. However, the sample is also well diversified in other aspects.

Enterprise Age

The businesses represented have been in operation from three years to 106 years. The mean age of operation is 17 years, while the standard deviation is 19 years.

Involvement

These business owners began operating in a variety of ways. Sixteen members of the sample began operation through their own start up initiative. Six business owners purchased their enterprises. Two of the sample participants bought into newly formed companies, while two others represent owners that have inherited family business operations. This is a well-diversified sample that represents a variety of business entry options. This sample suggests that start up is the most predominant means of entrepreneurial activity. It is interesting to note that demographic information could raise questions regarding whether this will remain the case. Many current business owners are approaching retirement, as they are comprised of the baby boomer segment of the population. There may be an abundant opportunity for individuals to enter business through purchase options in the future.

Business Structure

The participants in this study also represent a variety of business structures. Approximately 38 percent of participants operate as sole proprietors. Nearly 33 percent represent corporations, while 29 percent are partnerships. It is interesting to note that several of the partnership agreements represent family based partnerships, including spouses.

Sectors

As previously indicated, many sectors of the economy have been included in this study. The manufacturing sector, which includes craft manufacturers, is captured quite well in the study. It should be noted that some of the operators represented in this manufacturing category also retail products at some level.

Markets

Businesses participating in this study vary greatly in terms of their core business markets. The range includes businesses that solely serve a local demand, while other operations have demonstrated success in the pursuit of international markets.

Table 5 – Primary Markets

Primary Markets	Frequency	Relative Frequency
Local	4	0.154
Regional	4	0.154
Provincial	3	0.115
National	4	0.154
International	9	0.346
Other	2	0.077
Total	26	1.000

The number of businesses indicating international market activity in this study is very encouraging. SMEs recognize the value in growth and expansion through the pursuit of international markets. The study identified that owners in the sample are quite interested in exporting and recognize the opportunities presented. The following quote identifies a view of export markets,

> *"The world is the marketplace. If you can create a product that the world needs,. . . than that's an opportunity . . ."*

Definition of Success

> *"Luck is not a strategy for success."*

The definitions of success identified in the study varied greatly. These definitions included financially and non-financially based definitions. Some business owners indicated that success was based on items that can be measured quantitatively, while others require a qualitative analysis. Eleven of the 26 study participants indicated more than one basis for the definition of success. These business owners see success across a variety of factors.

Table 6 – Definitions of Success

Definitions	Frequency	Relative Frequency
Quality of product/service	6	0.193
Financial measures	5	0.161
Business plan, goals	4	0.129
Customer service level, retention	4	0.129
Growth, change, progress	4	0.129
Not financial	3	0.097
Asset accumulation	2	0.065
Remaining in operation	2	0.065
Awards, public recognition	1	0.032
Total	31	1.000

One emerging theme in the study is the emphasis that business owners place on quality. As indicated above, this item appeared six times during discussion of this question. Business owners across a variety of sectors attribute success with the provision of quality on both products and services. This appeared to be linked with the concept of customer service, which was indicated in four instances. Quality on the service side is indicated throughout the research as a critical component of business operation. Participants mentioned such factors as the "customer experience" and "knowing the customer". In one case, a business owner explained how she personally knows customers that come into her store and as a result is able to offer unique, personal service. The value of intimate customer interaction was noted as an element of quality service throughout the study.

Although five participants indicated that they do use financial data and measures to determine success, three others indicated that success was not necessarily financial. One business owner specifically stated:

> *"Success is such a strange term, I don't think we are successful, if you base it on money . . . but I think that we are a real success because we have grown the business."*

The data suggests that some business owners do not equate success directly with profit or the bottom line. Small business owners appear to place significant emphasis on growth as an indicator of success. Growth was alluded to in a number of ways, including change to satisfy demand, change to remain competitive, initiatives as a result of innovation, and creativity. Progress in general was identified as a success factor.

Business Objectives

As can be seen in the table below, business owners expressed objectives that related to market development initiatives in four instances. This reflects the fact that business owners are seeking new markets as a means of business growth. One business owner shared the following,

> *"Every year we sit down and ... try to look for new markets, new market trends, product knowledge, new products that are coming on to the market... ".*

Throughout the study, this was particularly evident in terms of interest in and value placed on international market development.

Table 7 – Business Objectives

Objectives	Frequency	Relative Frequency
New market development	4	0.250
Employment (sustain or create)	3	0.189
Profitability/other financial indicators	2	0.125
Quality levels – product and service	2	0.125
Establishment and acceptance	2	0.125
Product development	1	0.062
Competitive pricing	1	0.062
Production levels	1	0.062
Total	16	1.000

Employment as a business objective was indicated three times during discussion of this question. Interviewees indicated objectives to sustain full time employment for themselves and create employment for other. One business owner described her past employment objective,

> *"Never steering from the goal to earn a full time living, ...that was what I wanted, that's basically how I base my success right now."*

The data indicates that only nine of the 26 businesses represented in the sample clearly addressed objectives in answering this question. Seventeen interview participants did not indicate future objectives. This data however, cannot determine that these interviewees are operating in the absence of objectives, as the next interview question determined that many of the business owners use benchmarks to measure performance. Quantitative objectives must have been reviewed in developing such benchmarks.

Performance Measures

> *"We're able to find solutions to problems that other companies have not."*

As the table below depicts, the data is clustered. In 18 instances business owners discussed the importance of using a variety of benchmarks to measure performance. Some of these benchmarks included several quantitative measures: financial measures, productivity levels, and activity volumes. In terms of financial measures, revenue was the most widely referenced indicator. Of the 18 references to the use of benchmarks, nine specifically pertained to revenue in terms of volume and/or dollar value. In three of the 18 references to benchmarks, business owners specifically indicated the use of profitability as a measure. The idea of using projections, particularly from a business plan was also indicated as a useful tool. One business owner stated,

> *"I'm very fortunate that I've exceeded my projections, but I still think of it (business plan) as my sounding board."*

Table 8 – Business Performance Criteria

Performance Criteria	Frequency	Relative Frequency
Benchmarks (financial, volume, productivity, projections)	18	0.409
Customer feedback, loyalty, repeat purchase	13	0.296
Historical Data Comparison	7	0.159
Competition Comparison	2	0.045
Personal Satisfaction	1	0.023
Public Recognition	1	0.023
No Measurement	2	0.045
Total	44	1.000

Performance criteria that occurred second most frequently in the study are of a qualitative nature. Owners focused on the use of customer response and satisfaction as a measure of performance. This specifically includes such language as customer loyalty, customer feedback, level of customer satisfaction, and repeat purchase. One business owner stated,

> *"I think that I would have to say the customer feedback...tells all".*

As will be evidenced throughout this report, business owners demonstrated a strong customer orientation.

The use of historical data comparison was indicated in seven instances. This often related to reviewing quantitative data, such as sales, against past performance. Another theme, which did present itself in two instances, was the use of a competition analysis to measure performance.

Overall, the use of specific criteria to measure performance is wide spread. Only two of the 26 businesses represented in the study did not provide specific examples of performance criteria used. It is also interesting to note that performance criteria indicated by business owners were numerous. Fifteen of the 26 business owners indicated multiple measures of performance. Thus, it is clear that these successful businesses are actively tracking performance.

Internal Success Factors

> *"Education is a big, big important factor. You have to keep up with that. . . You have to keep on top of the industry."*

There were a total of 20 instances in which business owners referred to role that knowledge and expertise played in success of the business. This included reference to the importance of a solid understanding of the business and the industry. In some cases specific technical experience of the owner was cited as a critical factor for success. Business owners also indicated the importance of professional development, continual learning, and training, including academic and experience- based learning. One interviewee mentioned the benefit of the opportunity to apprentice with an individual in the same industry, prior to starting the business. Another business owner indicated the importance of learning and recognizing his own limitations.

Table 9 – Internal Success Factors

Internal Factors	Frequency	Relative Frequency
Knowledge and Expertise, including training	20	0.211
Skilled and Committed Employees	16	0.168
Customer Orientation	15	0.157
Perseverance, Dedication, Determination	12	0.126
Uniqueness, Specialization	6	0.063
Family Support	5	0.052
Good Product, Facilities, and Process	5	0.052
Ability to Change and Diversify	3	0.032
Internal Investment/Financing	3	0.032
Marketing	3	0.032
Pleasure, Passion	3	0.032
Technology	2	0.021
Creative Decision Making	1	0.011
Networking	1	0.011
Total	95	1.000

The role of employees in the success of a business emerged as a dominant internal success factor in this study. During the interview this topic was addressed a total of 16 times. Fourteen of the 26 interviewees indicated the importance of employees in the successful operation of a business. In discussing this theme, one business owner stated,

> *"People... We've got great people."*

The idea of customer orientation being fundamental to the success of a small business emerged in this question in a dominant position as well. In 15 instances business owners directly linked their customer orientation focus with success. Business owners described this factor with phases such as: know your customer, exceed customer expectations, and customer friendly. One entrepreneur stated,

> *"From a success point of view, I've built this business on reliability, availability, and customer service all around. That's why almost all of my customers have started with me and are still with me."*

This topic emerged multiple times during the survey with many business owners.

Reoccurring topics resulting from this question, as well as throughout the study material, were the concepts of perseverance, dedication, and determination. Reference to the important of these characteristics or qualities were indicated 12 times in the material. One owner stated,

> *"I wouldn't give up, right. I needed it, I had to have it, and I didn't stop."*

Business owners also described this with such as words as commitment, hard work and strong work ethic. In discussing success, many business owners indicated the link between these areas and success. It appears that these topics were seen as necessary and fundamental elements of their success.

It is interesting to note that all 26 business owners indicated multiple internal success factors. During several interviews six individual internal success factors were indicated. During one interview a business owner identified seven internal success factors. It is clear that business owners recognize the dynamics of successful management in that they have made it clear that a combination of many factors are necessary for success.

Of the themes identified in the table above, it is interesting to categorize each of them as relating predominantly to the entrepreneur or overall organization. It appears that six of the themes can be specifically and solely attributed to the entrepreneur, while eight fit more appropriately as organizational characteristics or factors. This data provides the basis for an argument that business owners recognize that their own individual characteristics, including knowledge, perseverance, family support, passion, networking skill, and creativity, play an instrumental and fundamental role in success. This information supports the argument that value is created when the owner is also the operator of a small business.

External Success Factors

> *"Government has been really good ...I find that advice helps almost as good as money, or sometimes better than money"*

As the table identifies, study participants cited a diverse variety of success factors that relate to many stakeholders. All participants provided valuable information concerning success factors. A total of 10 businesses provided three or more individual external factors. This, coupled with the diversity of the responses, may suggest, at least, a moderate awareness of the impact of the external environment.

Table 10 – External Success Factors

External Success Factors	Frequency	Relative Frequency
Government Support, financial, other supports	18	0.314
Growing Economy and/or Industry	8	0.140
Community Involvement and Support	7	0.123
Customer Support, referrals and loyal business	6	0.106
Positive Relationships Partners and Suppliers	6	0.106
Structures Conducive to Business Success, transportation networks, signage approval	4	0.070
Reputation of business or province	4	0.070
Lack of Competition	2	0.035
Media	1	0.018
Recognition – Awards	1	0.018
Total	57	1.000

The data is clustered strongly around the concept of government support with 18 references to such support as an external success factor. These references included financial and other supports, such as professional advice in the areas of research and development or marketing.

Such references were made by a total of nine businesses. Of these businesses, six are in the manufacturing sector. This likely reflects the fact that government programs, both federally and provincially, have been supportive of manufacturing initiatives, as manufacturing has been highlighted as a growth sector.

A theme that also presented itself frequently was the value of the external economy and/or industry. Eight references were cited which indicated the important role that economic conditions play for small businesses. One interviewee stated,

> *"The economy has been, in the years that we've been in business, ... improving...It's been very positive.."*

Such references in the material speak to the vital role that economic conditions play for small businesses.

The concept of community as an external factor was referenced by survey participants a total of seven times. This theme includes such factors as business involvement in the community and support from the community. Throughout the study there are numerous references made to business owners volunteering time and donations to communities, groups, and initiatives. Although the frequency of this theme is not particularly strong, it may indicate an appreciation for the value received from acting as a good corporate citizen. One study participant states,

> *"I'm very involved in the community. There are many committees that I sit on. The Chamber of Commerce...I teach Junior Achievement... I teach about my business and I teach them how they could go into business."*

Another interviewee sums up the relationship between community support and customer service,

> *"No business survives without their customers being satisfied. ...With your customers, you may not give back to them directly, but you have to give back to them in a manner of where you support your community."*

Although the theme of customer support as an external success factor only occurred a total of six times during discussion of this question, it is worthy of note. This concept of customer relationships is consistent through the material. In this particular question, business owners appear to be speaking to the value of loyal customer relationships and referrals.

Several interesting, but rather isolated, items also arose during this question. As they are points that arise in other aspects of the research they are clearly worthy of further discussion. For the purposes of this question, they have been themed as structures conducive to business success. One topic that emerged in this material was an issue of transportation networks. Business owners described the importance and relevance of reliable and high quality transportation networks from the perspective of goods transportation and also from the viewpoint of customer use of transportation networks. Business owners also address issues of signage through the material. In this instance participants indicate the critical value of signage and explain the role that external regulation plays in this regard.

Critical Activities of Success

> *"During the course of a day, my whole life personally and professionally revolves around paying attention to detail."*

All business owners provided insights on important daily activities, while 17 of the 26 operators provide three or more activities that they feel are important to success. Generally, activities indicated by business owners were diversified across a variety of management functions. Perhaps speaking to the all-encompassing nature of the owner/operator positions.

Table 11 – Important Daily Activities of Business Owners

Activity	Frequency	Relative Frequency
Customer Service and Attention	15	0.238
Operational Duties (inventory, production)	12	0.190
Human Resources Management	10	0.159
Pursuit of New Opportunities	9	0.143
Financial Management and General Administration	5	0.079
Owner Training and Professional Development	4	0.063
External Interactions (partners, government, volunteer, community)	3	0.048
Marketing	3	0.048
Balancing Family Responsibility	1	0.016
Problem Solving	1	0.016
Total	63	1.000

Analysis of this data appears to be clustered around the first four activities listed on the table above. Customer service related activities held the predominant position with a frequency of 15. It should be noted that 15 businesses indicated these total responses. This is not surprising, given the overall customer orientation that is evident throughout the study. These references described such duties as personal service to customers, customer follow-up, and customer relations. A study participant explained,

> *"Trying to follow up and see if customers are satisfied. . ."*

Operational duties were referenced a total of 12 times by 12 business owners during responses to this question. This included such references as facilities operation, inventory management, and production activities.

Employee relations appeared third most frequently in the data. Business owners cited activities in this area a total of 10 times. As the responses were diverse for each business, this frequency represented responses from 10 businesses. Given the value that business owners place on employees, as uncovered in the discussion of internal success factors, it is not surprising that employers place emphasis on the selection and training of employees. It is not surprising that they would worry about shortages of skilled labour and retaining good employees that are currently trained. One business owner stated,

> *"Employee relations, number one . . . If my staff are not happy with us as the management team, we have nothing."*

It is interesting to note the correlation between the importance of the employee and the customer. Of the 10 businesses that indicated employee relations as an important daily activity, seven also pointed to customer service as a critical daily activity. As the following quote explains, business owners recognize and appreciate the link,

> *"Preparing our staff with knowledge and some authority, and I guess just enabling them to deal with the customers better."*

It is interesting to note that the three activities that appeared most frequently in the study relate to internal activities and existing business operations. In terms of frequency, the pursuit of new markets and opportunities appears after the core activities of customer service, operations, and human resources related duties. It can be inferred that business owners recognize the importance of existing business before focusing on growth initiatives. The study does uncover that growth is important to businesses, but responses to this question likely speak to a thoughtful approach to growth. One business owner describes,

> *"New products, expand new markets, bit by bit. We're not in a big rush."*

External Relationships

> *"Customers are your best. They are free marketing money."*

Discussion of this question also uncovered a wide variety of stakeholders. Again speaking to the awareness and recognition of the important role that external stakeholders have for small business owners. All study participants indicated external relationships, with 24 of the 26 participants identifying multiple external relationships.

Table 12 – Important External Relationships

External Relationship	Frequency	Relative Frequency
Customers	12	0.200
Other Entrepreneurs	10	0.167
Community	8	0.133
Government	8	0.133
Industry Associations	8	0.133
Professional Advisors, Consultants, Experts	7	0.117
Banks	2	0.033
Suppliers	2	0.033
Investors	1	0.017
Mentors	1	0.017
Other	1	0.017
Total	60	1.000

Not surprisingly, the customer theme tops the list of external relationships in terms of frequency. In 12 instances business owners discussed relationship with customers as critical to operations. Quotes similar to those indicated earlier in the study were abundant.

> *"Keeping an eye on who your customers are..."*

A theme that began to surface during this question was that of relationships with other entrepreneurs. In 10 instances participants indicated the importance that contact with other entrepreneurs has played in the operation of the business. One entrepreneur described,

> *"Good communications with other people in your industries are really important . . ."*

This is interesting as it brings the idea of peer learning to light. The study has shown that business owners place much importance on gathering knowledge and learning. This question raises the suggestion that learning may be occurring under a peer process, and perhaps on an issue-by-issue basis.

Similarly, the concept of industry associations providing valuable external relationships appeared eight times. This speaks to the value of other business contacts in an industry. Likely, it is related to the idea of learning and support from others in the same industry. One business owner mentioned the need of an association or group of business owners.

In relation to industry associations, the use of trade shows was discussed in the material. Business owners use trade shows, often organized by industry associations, as a valuable vehicle for networking and developing external relationships.

Also appearing eight times in this data is the idea of a relationship with government. This finding is in line with the results of external success factors. Business owners have expressed that relationships with government are important due to valuable programs and supports. Further information on the role of government is presented later in this material.

The concept of relationships with the community also appeared eight times in the data. This is also in keeping with the results of external success factors, which suggest that community relations, support and involvement are important, perhaps due to a link with customer satisfaction. This theme was actually reported by seven businesses. It is interesting to note that three of the seven are small communities in rural areas of the province. The other four businesses are located in medium sized towns, such as Carbonear for example. This may indicate that relationships with community may play a stronger role in small to medium sized communities and towns.

The theme of the importance of relationships with professional advisors, consultants, and/or experts appears seven times in the data. This included relationships with accountants, marketers, and industry experts. This is no doubt linked to the concept of learning and increasing knowledge. It also speaks to the idea of learning on a just-in-time basis. As necessary, or as issues arise, business owners seek professional advice and view such relationships as somewhat important.

Internal Challenges and Obstacles

"Access to private capital is a challenge."

Themes arising from this question were very concentrated. As the table depicts, business owners frequently expressed internal challenges in the areas of financial and human resources.

Table 13 – Internal Challenges Faced by SMEs

Internal Challenges	Frequency	Relative Frequency
Financial Resources	18	0.391
Human Resources	12	0.261
Business and Industry Knowledge	5	0.109
Time Management Issues	5	0.109
Stakeholder Relationship Management	3	0.065
Marketing Management	2	0.043
Risk Management	1	0.022
Total	46	1.000

There were many commonalities in the overall responses to this question. All business owners presented information concerning internal challenges. Twenty-two of the 26 participants provided insights into multiple challenges. Some of the challenge areas identified have been indicated in earlier question response data as important areas for success. This focuses on the critical nature of challenges such as access to financial resources and skilled human resources.

The financial resources related challenges were presented a total of 18 times by 14 business owners. Financial challenges were presented from the viewpoint of start up capital, cash flow issues, limited working capital, burdening taxes, etc. It is interesting to note that financial issues were not presented from a profitability standpoint. As an example one business owner suggested,

> *"First and foremost, the challenge was that we basically entered the business with very little money"*

Again the human resources theme emerged in this question. Business owners explained that internal challenges arise in attracting and training employees. This is no doubt linked to the importance that business owners place on recruiting and retaining high quality employees and the link that is made with good quality customer service. This issue was raised 12 times by 11 business owners. Several participants raised concerns about finding skilled employees, now and in the future,

> *"The labour shortage is serious here, very serious."*

The issue of business and industry knowledge was indicated as a challenge in five instances. Although this frequency is not high, it is interesting to note that the theme is reoccurring throughout the study. Business owners place emphasis on their own learning and knowledge. They appear to recognize the need for continual learning.

Addressing Internal Challenges

Overall, responses to addressing internal challenges were quite low. Only nine study participants provided examples of activities pursued to address challenges. With such low frequencies, it is difficult to determine if there is any true clustering of the data. However, the idea of addressing challenges with continual learning and skills development did occur four times. The concept of perseverance and persistence appeared three times. Both responses pertain to a variety of challenges, such as those indicated in Table 13 above. Such references were made to facing business challenges in a general sense. As can be sensed throughout the study, business owners appear to see significant value in learning and perseverance when facing any challenge.

The themes that appear most frequently in this data are knowledge and perseverance. These are reoccurring themes throughout the data. It is interesting that responses in this area reinforce the idea that business owners look inward and personally for answers first. They start with an internal approach to dealing with business challenges. This is likely linked to the owner/operator phenomenon in which the owner sees him/herself and the business as one and the same. This internalization speaks to the owners' level of commitment and passion to the business.

In terms of external means used to face challenges, business owners indicated the use of professional assistance, direction, and support a total of 3 times. As an example, one business indicated addressing financial issues by hiring an accountant to assist with bookkeeping and financial troubleshooting. Business owners also discussed addressing challenges by sourcing financial resources in three cases. Several topics were discussed in this context, including reinvesting profits and accessing personal and family savings. In two instances business owners discussed mobilizing, motivating, and training staff as a means of dealing with internal human resource issues.

It is surprising that these businesses, which are recognized as successful operations and have a mean age of 17 years, did not provide further discussion around manners in which they have addressed financial woes. Especially given that financial resources was the most frequently cited challenge.

External Challenges and Obstacles

"Government red tape...our experience has been definitely that"

Twenty-five of the 26 study participants provided discussion concerning specific challenges in the external environment. Thirteen participants provided two or more challenges.

Table 14 – External Challenges Faced by SMEs

External Challenge	Frequency	Relative Frequency
Government	9	0.231
Transportation Issues	7	0.179
Human Resource Issues	6	0.154
Market Entry	5	0.128
Competition	3	0.077
Fluctuating Market/Economy	3	0.077
Access to Funding	2	0.051
Infrastructure to Support/Complement Business	2	0.051
Suppliers	1	0.026
Weather	1	0.026
Total	39	1.000

The concept of government as an external challenge was indicated nine times in the data. Discussion centered on specific issues such as the speed at which decisions are made within government departments or organizations. Phrases such as "red tape" were used by business owners when describing the idea that processes are lengthily and do not move at a speed which meets the needs of small business operators.

Another issue that was prevalent in the discussion of government as an external challenge is signage regulation. Business owners indicated the critical nature of having appropriate signage.

> *"We weren't even allowed to put a sign up on the highway to let people know we had a shop here. We are allowed to have a regulated type of sign (now) and that's wonderful..."*

Also related to government, another issue that arose during the question included concerns around transportation infrastructure. This topic arose seven times, however only four operators presented it. These businesses are operating in the manufacturing and tourism sectors. Comments centered on the cost and time factors that come into play with transportation within and out of the province. Business owners, particularly in the tourism sector, indicated concerns with the ferry service.

As with previous questions, issues around human resources surfaced during discussion of this question. This topic was presented six times by six separate business owners. Concerns generally centered on the availability of labour.

Addressing External Challenges

As with internal challenges, the response rate to how external challenges have been addressed was quite low. Twelve of the 26 firms provided some discussion regarding this topic. However, there is little clustering of the data and it is difficult to determine if trends are present.

There was a general focus on owner knowledge and learning, as well as perseverance. These topics are prevalent throughout the research and appear to be seen as important elements of business operations.

The concept of involvement with the community was presented a total of three times as a means of addressing external challenges. This topic included educating communities as well as giving back to communities in terms of volunteer time. As an example, a business dealing with competition uses such community involvement activities to increase top of mind awareness of the business and establish a positive business reputation and image.

Although government was the most frequently presented challenge, the data did not provide specific strategies that indicate how this challenge is addressed. Such discussion generally encompassed the concepts of perseverance and knowledge. Similarly, transportation issues were presented as challenges. However, the data did not conclusively suggest how this issue is addressed.

Greatest Challenge

> *"It's easy to get manpower. It's hard to get manpower that has these types of skills..."*
>
> *"We are doing well in the market. But if I need two million dollars for raw material, then I've got to jump through hoops and pull teeth."*

Responses for this question were provided by 25 of the 26 business operators. Some owners provided two main challenges. Some clustering occurred around issues that are reoccurring in the study.

Table 15 – Biggest Challenge Facing Business Owners

Challenge	Frequency	Relative Frequency
Human Resources	6	0.223
Financial – Cash Flow, Profitability	4	0.148
Financial - Capital	4	0.148
Growth	4	0.148
Maintaining (current activity, service, business)	4	0.148
Decline in Local Markets	1	0.037
Decline in Supply	1	0.037
Government	1	0.037
Marketing	1	0.037
Time Management	1	0.037
Total	27	1.000

The most frequently indicated theme centers on human resource issues. Business owners report facing challenges in terms of retaining good employees, losing employees to larger employers, and employee training. The following quote describes the problem of a seasonal tourism operator,

> *"If I had a company that was operating 12 (months) in full, I'd have no problem with having the best people ..."*

Another business owner anticipates future problems in finding skilled labour,

> *"Employees is going to be a problem, or lack of employees. Skills for what it is we need..."*

In total, eight operators addressed the issue of financial challenges eight times. This certainly mirrors the data collected concerning internal business challenges. The financial issues were discussed specifically in terms of cash flow and profitability issues or access to capital. As the table identifies, four discussions of financial challenges relate directly to cash flow and profitability issues, while the remaining four focused on access to capital. One business owner described difficulties in accessing capital,

> *"I've built a track record of paying down a fair amount of debt over these past five years and that has to say something...Then, accessing funding for equipment or accessing funding for marketing or whatever – those are the hardest difficulties...It must be awfully difficult for new entrepreneurs trying to break into the market, just to raise capital to get started."*

A similar sentiment,

> *"Bargaining power, when it comes to raising capital, is very difficult."*

It is interesting to note that some of the categories that emerged during discussion of this question did not appear in the earlier discussion of external or internal challenges. For example, growth was not presented as a challenge. Similarly, the ability to maintain current activity to continue to survive in a market was also not previously indicated.

Challenges Facing Newfoundland and Labrador Entrepreneurs

> *"The biggest challenge would be lack of financial assistance."*
>
> *"Getting good young great staff."*

Presentation of this question yielded discussion from 24 of 26 study participants. As the table below indicates, the data is clustered, primarily around challenges related to access to capital for business owners. Nine business owners indicated this as a challenge for entrepreneurs in Newfoundland and Labrador. The second most frequently noted challenge was government obstacles. This issue arose a total of six times. Challenges around access to human resources were presented a total of four times.

This data is interesting when compared to the challenges identified previously. Many of the same themes are present. This would suggest that the participants in the survey do not view their businesses any differently than any others in Newfoundland and Labrador. The fact that they are deemed successful does not change their view of challenges for themselves or others.

Table 16 – Challenges Facing Newfoundland and Labrador Entrepreneurs

Challenge	Frequency	Relative Frequency
Lack of Capital	9	0.322
Government (obstacles, regulations, taxation)	6	0.214
Declining Human Resource Base	4	0.143
Market Access	3	0.107
Financial Operating Costs	2	0.071
Competition	2	0.071
Lack of Co-operation within Business Community	1	0.036
Lack of Encouragement	1	0.036
Total	28	1.000

Although these study participants are deemed successful, they do not feel that they have answers to these challenges. This may link to the fact that there was limited discussion provided when business owners were asked how challenges were being addressed. Thus, business owners may anticipate that such challenges will continue to exist.

Future Expectations

> *"Every year we grow more and more, bit by bit, we don't take big steps, and that's how we're growing..."*

Responses to this question were overwhelmingly concentrated on the theme of growth, with a total of 30 indications in this area.

Table 17 – Position of Business in Five Years

Future Position	Frequency	Relative Frequency
Growing	30	0.811
Reducing/Streamlining	2	0.054
Status Quo	2	0.054
Conducting R&D	1	0.027
Reducing Debt	1	0.027
Struggling	1	0.027
Totals	37	1.000

Twenty-one of the 26 businesses interviewed suggested that they would experience some type of growth in five years. Growth was described in a variety of ways, such as in terms of assets, revenues, product offerings, location, employees, general public awareness of the business, etc. Of the 21 firms that discussed growth, nine specifically concentrated on the need for growth to be gradual, slow, or incremental. One business owner described the future of his business as follows,

> *"I see gradual, I won't say slow, but a gradual incline to success."*

These business owners are committed to growth, however not sensational growth. It can be inferred that similar growth policies lead to their current success. It is possible that such growth strategies have been the result of a lack of capital or access to capital. Although growth may have been slowed or inhibited due to a lack of capital, growth initiatives have resulted in success for these business operators. These business owners appreciate the slow and steady policy and intend to have it carry them forward.

Only two businesses indicated a reduction in business in the future. One business owner identifies this as a streamlining process. The business has grown tremendously and is at a point in which it is necessary to evaluate the operation and become focused on specific production, particularly that which is most profitable. Although this will mean a reduction in the overall operation and magnitude of the production process, it will be a positive process for the business. One business indicated a feeling that the future will continue to be a struggle. This comment was made around financial challenges for the business. The owner discussed the need for financing expansion and growth. Although growth is possible, the owner feels that the pursuit of growth will be challenging. However, a total of 23 business owners appear to envision continued prosperity for their businesses.

Future Opportunities for Business

> *"I think that Newfoundland and Labrador is a good place to do business in the tourism industry . . . I think that the province really has a tremendous future."*

The overall tone of interviewees is quite positive when discussing potential business opportunities in the province. Of the 26 interviewees, 18 business owners indicated specific business opportunities or growth industries in which opportunities might lie. Five other interviewees did not provide specific examples of opportunities, but did encourage entrepreneurship in general. Only three business owners made comments that would not be considered encouraging for business start ups in any areas.

The data, which indicates specific opportunities as presented in the table below, appears to be clustered in several areas. Tourism as a growth sector was the dominant theme, receiving nine references by nine businesses.

Table 18 – Potential Opportunities

Opportunity	Frequency	Relative Frequency
Tourism	9	0.273
Secondary Processing (including water)	6	0.182
Innovation	5	0.152
Health Care (seniors)	4	0.121
Spin-off Opportunities from Large-scale Projects	3	0.091
Services	2	0.061
Aquaculture	1	0.030
Manufacturing	1	0.030
Navel Architecture	1	0.030
Technology Based Initiatives	1	0.030
Totals	33	1.000

Ideas around secondary processing were cited six times in the data. Interestingly, three of these references focused specifically on the processing of water. An interviewee described,

> *"I think that the biggest thing that we got is water ... And I think that that would be a commodity, it's not sold now the way it should be."*

Throughout the data there is continual reference to the need for innovation, uniqueness, and creativity. Business owners express concerns with duplication of business initiatives. Businesses strongly indicated the danger of copycat businesses in such small markets. The following sums up such views,

> *"I think the opportunity, for small and medium sized businesses, are also in not duplicating what's already there, and in providing something unique and different."*

Newfoundland and Labrador: A good place to do business?

> *"It's a good place to do business. I mean Newfoundlanders, I think, take pride in their work."*

> *"It's a good place to do business no question about it; it's a good place to do business. It's just that the only thing that breaks my heart is the potential. It's the absolute potential of this province of Newfoundland and Labrador and we're not harnessing the potential. We are giving it away."*

Responses were received from 25 of the 26 study participants for this question. These responses have been categorized as overall positive, overall negative, or mixture. The following table provides a picture of this categorization.

Table 19 – Categorization of Response Tone

Overall Tone of Response	Frequency	Relative Frequency
Overall Positive	7	0.269
Overall Negative	7	0.269
Mixture – Positive and Negative References	11	0.423
No Response	1	0.039
Total	26	1.000

This data was tested for a correlation between business location and tone. There was no correlation found. The attitude does not appear to be linked to areas that are considered either large, medium, or small in size.

The following table provides a more in-depth view of the specific comments and themes that arose in both the positive and negative contexts.

Table 20 – Positive and Negative Themes of Province

Positive Themes	Frequency	Negative Themes	Frequency
Work Ethic, Positive, Attitude, Good People	15	Transportation Issues and Isolation	13
Unique Environment	6	Government	5
Low Operational Costs	3	Not Realizing Potential	4
Economic Growth	2	Lack of Financial Resources	4
Start-up Support	2	Lack of Expertise	1
Location for European Export	1	Not Competitive	1
Total	29	Out-migration	1
		Weather	1
		Total	30

In viewing the data in both manners, it appears that study participants are divided in terms of their view of Newfoundland and Labrador as a good location for business activity.

Recommendations to Federal Government

> *"We need access to our resources but we also need to make decisions on our resources."*

Twenty-five of the 26 participants provided recommendations during discussion of this question. Eighteen participants provided multiple recommendations.

Table 21 – Recommendations to Federal Government

Recommendations	Frequency	Relative Frequency
NL Control of Natural Resources	12	0.245
Support of Entrepreneurship	10	0.204
Transportation - Decrease Costs, Increase Quality	6	0.122
Work Harmoniously with NL, promotion	5	0.102
Education/Training Improvements	4	0.082
Taxation Changes	4	0.082
Transfer Payment Changes	3	0.061
Health Care	2	0.041
Renewal of Federal/Provincial Agreement	2	0.041
Conservatism Over Grants	1	0.020
Total	49	1.000

The most frequently discussed topic under this question was natural resources. Business owners indicated that the Province is very rich in resources, but is not benefiting financially. The topic was mentioned a total of 12 times, by 11 business owners. A variety of natural resources were discussed, including oil, fish, and water. One interviewee stated,

> *"Give us some of the royalties ... just give us more share of our own resources."*

The concept of support for entrepreneurs was presented as a recommendation in 10 instances. Eight business owners created this frequency. The discussions of these recommendations take on a variety of forms. Material covered placed value on funding programs, advice, mentoring, wage subsidies, etc. The following quotes suggest the value of such supports,

> *"More support needs to be given to people going into business on their own. Not necessarily from a monetary value, but just to have a more diverse support system for people going into business . . ."*

However, there are several references throughout the study that speak to negative issues around the concept of providing government funding to businesses. Such as,

> *"I am a firm believer that if people have a good idea and they are going to do something, I don't think you need a whole lot of money to do it . . . you know if you really believe in something, if it's a good business idea, start off small and you can grow it. I don't think government should do that for businesses . . ."*

Review of this material suggests that while business owners recognize the value of government supports, they believe there should be some accountability on the part of the business owner. A business owner explains,

> *"I don't agree with government handing out money hand over fist. And I don't agree with grants."*

As discussed previously, there are also concerns around the speed in which decision-making occurs within government.

Discussion around the isolation that exists for the Province is evident in this discussion as well. Business owners indicated transportation issues a total of six times during this question. Comments centered on high transportation costs for product and materials shipment. Other comments focused on the cost and quality of the ferry service.

Recommendations to Provincial Government

> *"To encourage entrepreneurship. Provide training in areas that will focus people to go in that direction..."*

Twenty-five of the total study participants provided feedback for this question. Twenty-one of the participants provided multiple recommendations. As with the previous question, the data is clustered. The same recommendation themes arose in this question, as in the previous question. The two most frequently appearing themes also appear as the two more frequently cited themes in the previous question. Thus, many of the issues and comments that business owners have for government can be carried across both levels, federally and provincially.

Similar comments regarding the need for support for entrepreneurship arose in this discussion as in the previous section. This theme presented itself a total of 12 times. Business owners feel that a variety of supports are valuable, including encouragement, access to information, support, wage subsidies, and similar programs. As with the previous discussion, this cannot be accepted without taking into account business owners' views of grants or unmatched support programs.

Table 22 – Recommendations to Provincial Government

Recommendations	Frequency	Relative Frequency
Support of Entrepreneurship	12	0.286
Development and Management of Natural Resources	8	0.190
Education	6	0.143
Promotion of NL	5	0.119
Retain people, create employment, decrease out-migration	3	0.071
Work Harmoniously with Federal Government	3	0.071
Adopt Longer Term Planning Focus	2	0.048
Health Care	1	0.024
Listen to Entrepreneurs	1	0.024
Eliminate Payroll Tax	1	0.024
Total	42	1.000

Issues around natural resource development and management occurred a total of eight times, making it the second most frequently occurring topic. Themes were quite similar as those discussed in the previous section.

Advice to Business Owners and Prospective Entrepreneurs

"One piece of advice would be whatever happens, don't ever give up..."

All interviewees provided feedback to this question. As the table below depicts, the data is clustered around the themes of Perseverance, Learning/Knowledge and Networking.

Table 23 – Advice to Entrepreneurs

Advice Theme	Frequency	Relative Frequency
Perseverance, Hard work, Positive Attitude, etc.	17	0.274
Continual Learning, Knowledge	9	0.145
Networking, Cooperation with Business Community	7	0.113
Financial Management	6	0.097
Human Resources Relations and Training	5	0.081
Business Plan Development, Start-up Package	4	0.065
Slow, Incremental Growth	4	0.065
Customer Service	3	0.048
Balance Family and Business Life	2	0.032
Seek Assistance, Government and Professional	2	0.032
Exercise Caution, Risk Management	1	0.016
Marketing	1	0.016
Passion, Love for Business	1	0.016
Total	62	1.000

In 17 instances, business owners discussed the importance of perseverance in the start up and operation of a business. Eleven business owners cited this theme. As had been indicated, this concept can be found throughout the entire study. Business owners used phrases such as hard work, commitment, positive attitude, and dedication to describe the mindset and work ethic that is required for the operation of a successful business. One business owner states,

> *"Never give up, once you got your eye on the ball, just keep persevering and eventually you'll see the light at the end of the tunnel."*

In conjunction with this concept is the idea of family support. Throughout the study business owners have suggested that family support has been crucial to the success of their business. Due to the dedication and commitment required to create a successful business, understanding and support from family is an important ingredient. One business owner sums up the commitment and support required,

> *"My husband! He's always there behind me. If I want to try something new he goes along with it, he is always there to encourage..."*

The concept of continual learning and knowledge is presented by business owners a total of nine times. Eight business owners covered this topic. Interviewees suggested that entrepreneurs should be open to a process of continual learning. They stressed the importance of knowledge of a business concept, product or service, as one business owner expressed,

> *"You can have all the money in the world, but if you don't know anything about what you are selling then don't go there."*

Linked to the importance of learning is the theme of networking and working co-operatively with the business community. This theme was presented seven times during discussion of this question. Business owners suggested that it is critical to know the business community and use contacts to the best possible advantage. As discussed previously, this suggests a peer learning approach in the business community and highlights the importance placed on group involvement, such as industry associations.

The overall themes identified and clustering that was found around particular themes is not surprising as these themes were also identified in the earlier review of success factors, particularly internal factors.

It is interesting to note that the three most frequently occurring themes involve the mindset, skills, and abilities of entrepreneurs. It can be inferred that successful business owners in the sample look internally at the individual when thinking about a business venture. They feel that success is tied to the individual business owner, at least as a starting point. The values of the owners' soft skills are taken into the business in the operator capacity. Thus, the value that is placed on the owner/operator phenomenon can be seen.

> *"Nobody is going to run your business the way you want to."*

Conclusions

All research entails a series of practical compromises. Consequently, it is important to bear in mind that the study conclusions must be understood within the context of the limitations of the study. One of the chief limitations associated with this study is the lack of a comparison group of unsuccessful firms. While the research design permits the identification of common factors amongst the successful firms studied, one cannot conclude with certainty that the factors identified in this study distinguish successful firms from other firms. A second limitation has to do with the nature of the sample. The sample in this study was chosen with considerable care in an effort to achieve broad representation with respect to location, industry and gender. Nevertheless, the small sample size and the need for judgment in the selection process make it inappropriate to attempt statistical inference. Thirdly, several features of the design, including the cross-sectional nature of the study, make it impossible to demonstrate in a definitive manner the existence of causal relationships. Finally, it should be remembered that the definition of success employed by any particular study could often have an effect on the nature of study findings. We have argued that the approach to defining success in this study has considerable merit, but other studies employing a narrow or different measure of success (e.g. profitability) might be expected to identify a different set of factors.

Despite these limitations the study appears robust in its ability to highlight a variety of factors and themes characterizing successful ventures in the province of Newfoundland and Labrador. In particular, the qualitative nature of the data collection procedure was well suited to explore responses concerning complex issues and to capture the richness of the resulting data. In contrast to quantitative research methods, which tend to require the researcher to make restrictive and sometimes inappropriate assumptions prior to engaging in the research process, qualitative methods usually require the researcher to maintain an open mind early in the process and attempt to explore the context of events as well as the events themselves.

There was no indication made to the individuals involved in the process of nominating firms that we had any preference concerning the industry composition of the sample. Consequently, it is notable that the 26 firms participating in the study are distributed across 10 diverse industries. This finding serves as a reminder that successful firms can be found in many industries and are not restricted to a narrow list of industries that may be favoured by policy makers or government programs, a phenomenon that has been termed "high-tech snobbery" (Lefebvre and Lefebvre, 2000). Although changes in the nature and structure of industries can and do create opportunities, opportunity itself does not produce successful organizations. Great organizations require opportunity but they are created by people. Moreover, although opportunities may be more plentiful and easier to identify in certain industries, they are not restricted to those industries. It may be, therefore, that exceptional firms will be easier to identify in commonplace, unspectacular industries where strong performance reflects entrepreneurial behaviour and extraordinary competitiveness more than it does industry growth and favourable market conditions.

Successful firms were indeed observed that catered solely to local and regional markets, but it was evident that firms find it necessary to seek new markets in order to grow. The majority of firms already have pursued opportunities for growth beyond the borders of the province and more than a third of the firms are currently serving international markets. Of the firms that are not yet exporting, many are currently engaged in tentatively exploring international markets and anticipate entering these markets within the next few years. From a policy perspective, the pursuit of export markets provides two important benefits. First, by enabling firms to grow, it becomes a source of job creation and a vehicle for enhancing the competitiveness of domestic firms who will face heightened competition even within their borders as the marketplace becomes increasingly globalized. Second, because it brings in new money from the outside, exports are important to the creation of new wealth and overall economic growth.

It is significant that firms consider the entering of a foreign market to be an extraordinarily difficult undertaking, often requiring years of investigation and effort. Consequently, it will be important for Government to expand its role in facilitating export initiatives. Currently there are a number of programs offering "hard" support for exporting in the way of financial assistance, government guarantees, etc. There is a need, however, for considerably more "soft" support to firms in the way of advice, counselling, training, and mechanisms to support the development of new information networks and the acquisition of information and knowledge about foreign markets.

Although considered successful by outsiders, the firms in the study are dynamic and continuously evolving. We saw no signs of overconfidence, cockiness, complacency, or carelessness in the firms we interviewed. They do not consider themselves to have arrived at a destination where they can finally relax and enjoy the rewards of success. Their focus tends to be very much on the journey itself rather than a final destination such as financial reward. Guidance tends to be derived from a clear sense of mission and from a dynamic and flexible vision that provides a sense of direction as opposed to formal objectives that are precise and static.

In contrast to the loose, malleable approach to direction setting, however, virtually all of the firms display a focused and detailed attentiveness to their current performance. Some firms measure their performance in comparison to competitors, some look to customer feedback to monitor their progress, and some firms compete against themselves in order to continually improve. Efforts to measure and monitor performance are deliberate, determined, and continual. Firms tend to prefer measures that are objective and unambiguous and employ multiple measures that provide feedback on a variety of performance dimensions. These firms work hard at being in tune and in touch; they have their finger on the pulse of the business and consequently they know where they are and how they are doing at any given moment. It may be that this attentiveness to current performance reflects the fact that the resource bases of these firms are still relatively small and vulnerable and could be eroded rapidly if errors were to go uncorrected. At the same time, the timeliness and the volume of the feedback provided by these efforts greatly facilitate the potential for learning and rapid responsiveness to changes in the environment.

The study does not reveal "cookbook" formulas for the creation of successful organizations. It seems there are no simple recipes for success. Instead, success is a product of the dynamic interaction of insight and imagination on the one hand and passion and dedication on the other. It is interesting that few, if any, of the firms were founded on the basis of a wonderfully original and revolutionary idea. In addition to dispelling the myth that a great idea is required to create a successful business, this finding also has important implications for government, which, as our province's history shows, has exhibited a strong preference to support "big" ideas rather than the potential for superb execution.

It is important to note, too, that although many of the businesses in the sample were founded on unremarkable ideas, this in no way implies that creativity has not been important to the success of these firms. It suggests, rather, that there has been too much tendency in the past to view creativity as a one-time activity that occurs prior to the initiation of the venture, whereas the findings point to the role of creativity throughout the development of the enterprise. The moment creativity ceases, the venture stagnates and begins to atrophy. The more dynamic the environment, the more rapid this process of deterioration.

The resource-base view of the firm provides a powerful framework for understanding the competitiveness of firms in the marketplace. According to this view, resources that are valuable, rare and difficult to copy can provide firms with a sustainable competitive advantage over their counterparts. Our question concerning internal factors that contributed to success produced 95 items, representing an average of 3.7 factors per firm. These factors consist of strategic resources, in contrast to other non-strategic firm resources such as office supplies and accounts receivable, and it is these strategic resources that can give rise to competitive advantage.

Featuring prominently among internal factors contributing to success is a conspicuous attentiveness to the customer. Although small firms often are considered to be "close to the customer" as a by-product of their smallness, what emerges in this study is a very different picture that reflects a continual and concerted effort to understand customer needs and exceed customer expectations. In the words of one retailer,

> *"I want it to be an experience for them — not just to 'come, give me your money, and go' ... I want this to become a destination."*

This concern for the customer borders on the obsessive and manifests itself through a variety of means, including formal market research, the development of rich, detailed customer databases, personalized service, fastidious attention to detail and a supreme commitment to product and service quality. These firms go to extreme lengths to "get inside the customer's head" and their detailed knowledge of the customer is more a product of purposeful effort than the shared knowledge of a small community.

In addition to a strong customer orientation, other key themes emerged concerning the internal factors important to success (Table 24). These include outstanding product and service quality, skilled and dedicated employees, creativity, commitment and perseverance, continual change, continual learning and controlled growth. Although efficiency is a benchmark for many of the firms interviewed (some even felt they could win on price), most firms compete on the basis of differentiation that is achieved through uniqueness and/or quality and seek out markets that are less price sensitive. Creativity is viewed by interviewees as important to differentiating the firm from the competition, particularly when the inevitable imitators enter the industry in hopes of capturing a share of the pie. Creativity is also closely linked to change, another factor associated with success. It needs to be emphasized, however, that especially in the cases of creativity, change, and learning, the impressive aspect of these factors was not their mere presence, but rather the focused intensity and attentiveness directed towards these activities.

Table 24 – Characteristics of Successful Firms in Newfoundland & Labrador

#	Characteristic
1.	Clear direction, flexible goals
2.	Strong systems for feedback
3.	Investment in employee skills
4.	Powerful customer orientation
5.	Outstanding quality of product and service
6.	Differentiation strategy
7.	Creativity
8.	Continual change
9.	Commitment & perseverance
10.	Continual learning
11.	Incremental growth
12.	Integrity through core values

It is striking that of the 95 instances of internal factors identified, over 90 percent consist of "soft," intangible assets such as knowledge, employee dedication, customer orientation, dedication, uniqueness, and ability to change. "Hard" assets such as cash, facilities, and equipment may be necessary for firm survival, but it appears that they produce a durable source of advantage only in rare instances. The fact that nearly all of the internal factors represent intangibles points to the knowledge-based nature of the firms in the sample. This latter observation is particularly notable in view of the broad cross-section of industries represented in the sample, many of which traditionally have not been considered to be knowledge-based. The intangible nature of the factors contributing to success also emphasizes the limitations of traditional asset-based lending procedures such as those practiced by the major chartered banks. The fact that virtually all of the assets important to the success of the firm have no place on a balance sheet points to the inadequacy of current approaches to business credit evaluation. The need to develop new analytical techniques to better meet the needs of knowledge-based firms has been documented in prior research (Gorman, 2001), but unfortunately there has been little progress to date.

If internal factors tend to be controllable, factors associated with the external environment are usually beyond the control of any one firm. External factors contributing to success were mentioned less frequently than internal factors, appearing 57 times. This represents an average of 2.2 factors per firm. Government funding or advice and general industry or economic conditions were mentioned by roughly one-third of the participants, but it should also be noted that roughly a similar proportion of participants spoke strongly against government and some interviewees emphasized the fact that they were not mentioning government. Overall, there was no one external factor that was viewed as important by a majority of firms.

In the instances where government was mentioned as being helpful, some preliminary trends could be identified. Federal programs and agencies, for example, tended to be valued for their funding, and unsurprisingly were usually cited by firms located in growth industries. In contrast, provincial programs and initiatives were identified by a broader range of industries and were usually cited for the value of their advice and services, particularly in terms of expanding the knowledge base and skills of the firm. The infrastructure for crafts businesses appeared to be particularly valued and some interviewees expressed strong concerns that this infrastructure would soon be dismantled because program funding is about to be discontinued. Community development associations were mentioned in two instances.

Firms in the study value information that is specific to their needs and their problems at hand, rather than more generic forms of assistance applicable to a wide range of business situations. This kind of specialized knowledge usually requires industry experience and is most commonly available from peers, either through personal relationships or through industry associations. Interviewees expressed a desire for more sharing of information amongst firms and for firms in the province to work together. Government can accelerate this learning process by supporting the development of mechanisms that encourage and facilitate the exchange of information. Industry associations, trade shows, and seminars delivered by highly qualified industry experts are especially well regarded by firms in the sample. Similar findings are reported by Fischer and Reuber (2002), who concluded that rapid growth firms prefer to receive advice from their peers rather than policy makers or external resource providers. The Innovators Alliance is a recent experiment by the Ontario government to provide support to firms in a manner consistent with these findings.

Banks have the potential to play a key role in assisting firms, not only by making capital available but also by providing expert advice based on a strong knowledge of the industry.

Moreover, every business operating in the province must deal with a bank. It is disappointing, therefore, that only two firms identified the bank as a valued relationship. In one instance the interviewee noted that the banker had 30 years of experience and was a source of advice and expertise that had been integral to the success of the firm. Interestingly, the bank cited in that example was not amongst the big five major chartered banks. Overall there is no evidence of any interest by the banks in improving their service to SMEs. This is not a new finding, but it is unfortunate that there has not been the political will on the part of the federal government to require the banks to become more responsive, either by reducing the restrictions on foreign competition or through direct legislation.

Table 25 highlights some of the key challenges confronting firms in the sample. The fact that "shortages of skilled labour" and "financial resources" are high on the list of challenges faced by these firms is a serious cause for concern. Skilled human resources are the fundamental building blocks of knowledge-based businesses and the findings of this study indicate that skilled labour is one of the most important factors contributing to firm success. Outmigration and the aging of the population are certainly major causes of this shortage, but they are likely not the only causes. One interviewee, for example, strongly felt that the government had made a large mistake when it eliminated the trades programs from all of the colleges, choosing instead to focus on information technology. Our findings suggest that the information technology sector has indeed benefited from this strategy, but that firms in other, more traditional sectors currently are forced to invest heavily in training new hires and that labour shortages are posing a serious obstacle to the further growth of some of these firms.

Table 25 – Major Challenges

#	**Challenge**
1.	Skilled labour
2.	Financial resources
3.	Government *a) red tape: administrative burden* *b) delays* *c) signage* *d) lack of business consultation* *e) taxation*
4.	Transportation
5.	Other

Financial challenges might be expected to pose a major obstacle at start-up, since, when the business concept is still new and unproven, the entrepreneur lacks experience and a track record, and risk and uncertainty tend to be at their highest levels. The firms in the study, however, have a mean age of 17 years, have established customer bases, and have track records that are considered by others to exemplify success. The fact that a significant proportion of the province's best-run firms still experience capital shortages emphasizes just how severe the problem of accessing capital is for small and medium-sized firms. This is particularly true for rural firms. Not only does the shortage of capital heighten the vulnerability of these firms to temporary downturns and setbacks, but it also poses a major obstacle to growth. In the latter instance, there is evidence that firms operating in certain industries (e.g. technology, crafts) benefit from government programs that provide funding, but firms operating in more traditional, less glamorous industries, have few sources of capital available to enter new markets, develop new products, or invest in additional capacity, even though they possess a strong track record of success. It also appears that engaging a professional consultant to assist with the application process could enhance the likelihood of securing federal funding.

Although interviewees tended to view most obstacles as challenges, problems posed by government produced outright anger on occasion. One frequently cited difficulty was red tape, a major obstacle for SMEs. Excessive regulations tend to have a cumulative effect on firms, stifling their daily operations and competitiveness. This is especially so in the case of smaller enterprises because they are poorly equipped and lack the resources to cope with problems stemming from regulations. It is estimated that the average cost of administrative burdens is between 6 and 30 times higher for SMEs than for larger businesses (Commission of the European Communities, 1997).

A second problem associated with government is lengthy delays (e.g. inspections, processing of applications) that often extend into months. Firms attributed these to a lack of awareness and understanding on the part of government officials of the demands on firms in the private sector. Signage regulation emerged as a key problem for firms in the tourism industry. Finally, government was criticized for developing policies and legislation without seeking any input from business. Of the various challenges identified during the course of the study, this may be the most straightforward for government to address and has the potential to result in policies that are more effective. It is noteworthy that the OECD recently concluded that mechanisms were needed to ensure that SME concerns are considered and debated in the regulatory process, and that all types of SME, not just technology and high growth enterprises, should be considered (OECD, 1999).

Transportation on and off the island is viewed as an important impediment to the economic growth of the province by a number of firms. This issue also emerged as a key problem in earlier research (CFIB, 2002). Moreover, it is not an issue restricted to tourism operators. One obvious concern is cost, with several interviewees expressing the belief that government should fully subsidize the costs of shipping and transportation of goods and people. But the reliability and dependability of the service also have an impact on businesses, both directly and indirectly. The ferry system, for example, is vulnerable to delays and stoppages due to weather, equipment breakdown, strikes and other forms of job action. Such problems can prevent or delay the repair or maintenance of a firm's production equipment when parts must be obtained from the mainland, while the uncertainty surrounding the schedule and concerns over comfort, safety, and value for money can easily deter potential customers from visiting the province.

Response was very mixed to the question of whether the province of Newfoundland and Labrador is a good place to do business. Negative themes were dominated by the problem of transportation and government already discussed. Positive aspects stemmed from the strong culture of the province, and in particular the work ethic, positive attitude and friendliness of the people.

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Appendix A

Letter to Economic Zone Boards

Dear Executive Director,

I am writing on behalf of the P.J. Gardiner Institute, Faculty of Business Administration at Memorial University of Newfoundland. We have been contracted by the 'Royal Commission on Renewing and Strengthening Our Place in Canada' to do a report on 'Success Stories' of Newfoundland and Labrador businesses. As part of this report, we are required to survey 25 small and medium sized businesses across Newfoundland and Labrador; we are requesting your assistance in identifying this sample.

As a knowledgeable information source for your zone, we are asking for your help in identifying and suggesting **three** or more businesses that you feel qualify as success stories. Please note that at least one of these firms must be owned and operated by a female. To ensure we obtain geographical representation, we feel the most accurate method of identifying these successful businesses is through the various economic zonal boards. We are currently in the process of assembling a pool of potential firms from which our final sample will be selected. The information we require for these businesses include, firm name, owner name, gender (of owner), location, and industry sector. If you find it useful, please feel free to fax back the attached Business Identification form (737-2383). Any additional information you can provide about these businesses, such as profiles and background information would be greatly appreciated.

Attached are the criteria we are using to measure success. Please not that your participation in this study is voluntary and all information will be kept confidential and in a secure location. If you are unable to view the attachment and would like a faxed copy of our criteria or Business Identification form, please feel free to contact me at 737-2373, or mellswor@mun.ca. I thank you in advance for your time and I will follow up next week with a phone call.

Regards,

Marsha Ellsworth
Research Assistant
P.J. Gardiner Institute
Memorial University of Newfoundland
Ph: 709.737.2373
Fax: 709.737.2383
Email: mellswor@mun.ca

Appendix B

Selection Criteria

For the purpose of this study, Small and Medium Sized Enterprises are those businesses that consist of fewer than 500 employees. In identifying successful SMEs, please take into consideration the four criteria outlined below, suggesting firms that are exemplary on several of these dimensions. Please do not include franchises or professional services (lawyers, doctors etc.), in this list of successful businesses. Although not directly stated in the selection criteria, we would appreciate any suggestions that represent Aboriginal Peoples, or minority groups. In addition, we are interested in speaking directly with the owners of these businesses, as opposed to the managers.

1. **Ability to Fund Growth**

   As measured by:

   - New investment
   - Ability to Attract Outside Capital
   - Efficiency
   - Profitability

2. **Growth**

   As measured by:

   - Revenues
   - Job Creation
   - New Products & Product Lines
   - New Market Segments

3. **Industry Reputation**

   As measured by:

   - Industry Leadership & Recognition
   - Market Share
   - Product/Service Quality
   - Customer Satisfaction

4. **Community Reputation**

   As measured by:

   - Employee Satisfaction
   - Community Support & Recognition
   - Stakeholder Relations
   - Public Image

Appendix C

Nomination Form

Business Identification Form

	Firm Name	Owner Name	Gender	Location	Industry
Firm 1					
Firm 2					
Firm 3					

Additional Information:

Appendix D

Telephone Solicitation Script

Hello my name is Marsha Ellsworth, Research Assistant at the P.J. Gardiner Institute for Enterprise and Entrepreneurship at Memorial University. I am calling because the P.J. Gardiner Institute has been contracted by the Royal Commission on Renewing and Strengthening Our Place in Canada to do a study on small business success stories in Newfoundland and Labrador. The reason I am contacting you is because you have been selected as one of these success stories and we would like the opportunity to talk to you about your successful business. I am not sure if you are aware of this initiative, but I can explain further.

The Royal Commission is an independent government body headed up by Mr. Vic Young (former CEO of Fishery Products international), and they are conducting a critical assessment of Newfoundland and Labrador's strengths and weaknesses. They would like to bring forward recommendations as to how we can renew and strengthen our place in Canada. They are doing numerous research projects and one of them is on the successful achievement by small and medium sized businesses in Newfoundland and Labrador.

In order to undertake this survey, we had to identify successful businesses and select a sample. The firms were selected by asking the 20 Economic Zone boards to recommend several firms in their area. From this pool of businesses, we selected a sample. As you can probably tell your business was identified as a success story. After hearing the details of this study I am wondering if you might be interested in doing an interview with me. I would like to ensure that participation is entirely voluntary. I will be doing interviews in the coming weeks and will be in certain parts of the province at different times. What will be a good meeting time for you? Can I have permission to tape the interview?

Thank you very much.

Appendix E

Interview Guide

Ethics Disclosure

Before we start there are a few things I would like to go over with you:

1. You can choose to withdraw from the study at any time.
2. There is no hidden agenda or deception. There is full disclosure.
3. The data (tape and transcript) will be stored in a secure location and will not have any names attached or labelled except an identifying number.
4. If there are any questions you would prefer not to answer or are uncomfortable with, simply indicate this and we'll skip that question or retract the data you have provided.
5. We do not intend to identify names of individuals or firms in the body of the report but a list of participants, both individuals and firms, will be included as an appendix. We do plan to use quotations (without names) to illustrate points being made in the report. Moreover, because the sample is quite small and some industries may include a very small number of firms, it is possible that participants may be recognizable to readers of the report. We cannot guarantee anonymity.

Questions:

1. Perhaps we could begin with a brief overview of the business itself: How long has it been in operation? When and how did you become involved? How is the business currently structured? What are the main products or services? Your major markets? and so on…
2. Your firm has been included in this study because someone else recommended it as a good example of a successful business. How do you define your success? For example, what kinds of objectives have you set for the business?
3. What criteria do you use to determine how well your firm measures up in terms of performance?

One of the major objectives of this study is to determine the factors that are especially important in contributing to a business' success. The next few questions in our interview will address this issue specifically. In order to help organize things I'm going to treat internal factors, or factors inside the firm, and external factors, or factors outside the firm separately.

4. Let's begin with the first question: Are there any factors inside the business that you believe have been particularly important in contributing to the success of your firm? I don't have any specific categories in mind here, but factors inside the business might include things like specific characteristics of your business, the behaviour and past practices of the firm, and the resources of your business, both tangible and intangible.
5. Now for the next question: Are there any factors outside your business that have been especially important to the success of your business? Again, I don't have anything specific

in mind, but conceivably this area could include such things as tangible and intangible aid, market conditions, government policies and so on.

6. I'd like you to please take a moment to think about all of the various activities to which you devote your time during the course of a day. Of all of these activities that you perform, which three do you believe are the most important to the success of your business? Why?
7. Of all of the external relationships and linkages that have been developed over the years with industry, community, government, other businesses, customers, professional advisors, and so on, which three have been the most important to the success of your business? Why?
8. In addition to success factors, we're also interested in the challenges and obstacles you've faced. Inside your firm, what would you say have been the most serious challenges you've faced? How did you address them and to what extent have you been successful in overcoming them?
9. How about outside the firm, in the external environment? Has the environment presented any serious obstacles? How did you address them and to what extent have you been successful in overcoming them?
10. What do you see as the single biggest challenge, either inside or outside the firm that is facing your business today?
11. What do you see as the single biggest challenge facing entrepreneurs in Newfoundland & Labrador today?
12. What do you see for your company in the next five years?
13. Where do you see the opportunities for small and medium-sized businesses in our province in the coming years?
14. Why do you think Newfoundland & Labrador is or is not a good place to do business?
15. If the Royal Commission were to make two recommendations to the federal government concerning our achieving prosperity and self-reliance, what should those two recommendations be?
16. If the Royal Commission were to make two recommendations to the provincial government concerning our achieving prosperity and self-reliance, what should those two recommendations be?
17. If you could offer two pieces of advice to business owners and prospective entrepreneurs in our province, what would you tell them?
18. Would you be willing to participate in a follow-up questionnaire?

Appendix F

Follow-Up Survey

1. In terms of ownership, please indicate the percentage of the business you currently own.
    Owned by you and your immediate family _____ %
    Owned by others _____ %
2. Please indicate the number of managers within your business
    (including yourself) ________
3. Please indicate the primary business activity conducted by your company? (*Please check one only*)
    Retail
    Industrial Equipment and Wholesale
    Manufacturing
    Businesses Services
    Personal Services
    IT and Communications
    Mining & Oil
    Fisheries & Aquaculture
    Agriculture
    Other ___________________________
4. Do you consider your business to be a tourism business? Yes No
5. Please indicate how many employees of each type, including yourself, you had on your payroll during the past fiscal year.
    Full-time _____
    Part-Time _____
    Seasonal/Contractual Full-Time _____
    Seasonal/Contractual Part-time _____
6. Do you currently own any other business? (*Please check one only*)
    No Yes Number ____
7. Did you start any other business prior to this one? (*Please check one only*)
    No Yes Number ____
8. Please indicate your sales revenue in 2002. (*Please check one only*)
    Less than $100,000
    $100,000 to $249,000
    $250,000 to $499,000
    $500,000 to $999,000
    $1 million to $5 million
    More than $5 million
9. Please indicate your age group.
    Under 25
    25-29 Years
    30-34 Years
    35-39 Years
    40-44 Years

45-49 Years
50-59 years
60-64 years
65 years and older

10. Please indicate the highest level of education you have achieved. (*Please check one only*)

Some high school
Completed High School
Some Vocational/Trade School
Completed Vocational/Trade School
Some University/College
University/College Undergraduate Degree
University Graduate Degree
Other____________________ (*Please Specify*)

Appendix G

Cover Letter

P. J. Gardiner Institute for Enterprise and Entrepreneurship
Faculty of Business Administration

February 24, 2003

Mr. Reg Williams
Bon Tours/OceanView Motel
P.O. Box 129
Rocky Harbour, NL
A0K 4N0

Dear Sir/Mr. Williams:

I would like to take this opportunity to say thank you for agreeing to be part of our important research on success stories in Newfoundland and Labrador and for taking the time recently to meet with our researcher, Ms. Marsha Ellsworth. Your particular insights, experience, thoughts and opinions are important ingredients in this project and the resulting conclusions and recommendations.

As you may recall, this project is just one initiative of the Royal Commission on Renewing and Strengthening our Place in Canada and the results of our report will contribute to the final report of the Commission. I trust you agree that this is important research that will be beneficial for the continued success of many Newfoundland and Labrador businesses, such as your own, as well as new businesses in the future.

As a follow-up to the interview conducted with Marsha, we would like to gather some general information to assist us with the categorization and profiling of businesses that have participated in the survey. This questionnaire should only take a few minutes to complete and we would be grateful if you could provide us with this information. Please fax the completed questionnaire to the attention of Marsha Ellsworth at (709) 737-2383.

Again, let me say thank you for your participation in the worthwhile project. I wish you continued success in the future.

Yours truly,

Bonnie L. Simmons
Associate Director – Outreach
Encls.

Appendix H

Final Sample

Firm Name	Community
Bon Tours/OceanView Motel	Rocky Harbour
Bren-Kir Industrial Services	Marystown
CyberZone	St. John's
Epoch Rock	Argentia
Forteau Bay Pottery	Forteau
Gifts of Joy	Pasadena
Health Bridges	St. John's
Hotel Port Aux Basques	POB
Innova Multimedia	Stephenville
J.Petite & Sons	English Hr. West
Jill Dreaddy DanceCo	CBS
King's Point Pottery	King's Point
Labrador Hydraulics	Wabush
Labrador Inuit Development Corporation	Nain
Labrador Rewinding	Wabush
Mobile Massage Works	HVGB
Newfoundland Aqua Products	Ramea
Newfoundland Naturals	St. John's
Nortique Fashions	Corner Brook
Paterson Woodworking	Amherst Cove
Pat's Plants & Gardens	Bay Bulls
Peyton's Flowers	Gander
ProWeld Industries	Bishop's Falls
RPM Rebuild Pumps & Motors	Carbonear
Tuckamore Lodge	Main Brook
Vogue Furriers	St. John's

Appendix I

Company Profiles

Bon Tours/Ocean View Motel

- Location: Rocky Harbour
- Industry: Personal Service
- Products/Services: Boat tours/hotel
- Markets: International
- Age of business: 28 years
- Ownership: 100% Family-owned
- # of Managers: 6
- Current employees:
    - ◊ 2 Full-time
    - ◊ 14 seasonal/contractual full-time
- Currently owns 4 other businesses

Has started 2 other businesses prior to this one

Bren-Kir Industrial Services

- Location: Marystown
- Industry: Wholesale/ Industrial Equipment
- Products/Services Fire/safety products/industrial supplies
- Markets: Eastern Canada
- Age of business: 18 years
- Ownership: 100% Family-owned
- # of Managers: 3
- Current employees:
    - ◊ 17 Full-time
- Currently owns other businesses
- Has not started other businesses prior to this one

CyberZone

- Location: St. John's
- Industry: Information Technology
- Products/Services: Web site development/e-learning
- Markets: Local

Age of business: 5 years

Epoch Rock

- Location: Argentia
- Industry: Manufacturing
- Products/Services: Granite products
- Markets: International
- Age of business: 3 years
- Ownership: 33% Family-owned; 67% other
- # of Managers: 8
- Current employees:
    - ◊ 52 Full-time
- Currently own 3 other businesses
- Has started 8 other businesses prior to this one

Forteau Bay Pottery

- Location: Forteau
- Industry: Crafts
- Products/Services: Various pottery
- Markets: Provincial
- Age of business: 3 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
  - ◊ 2 Full-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

Gifts of Joy

- Location: Pasadena
- Industry: Retail
- Products/Services: Hallmark products
- Markets: Western Newfoundland
- Age of business: 15 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
  - ◊ 2 Full-time
  - ◊ 3 Part-time
- Does not currently own other businesses
- Has started one other business prior to this one

Health Bridges

- Location: St. John's
- Industry: Manufacturing
- Products/Services: Orthopaedic devices
- Markets: International
- Age of business: 8 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
  - ◊ 1 Full-time
- Currently owns 2 other businesses
- Has started 2 other businesses prior to this one

Hotel Port aux Basques

- Location: Port aux Basques
- Industry: Personal Service
- Products/Services: Hotel/restaurant/banquet and meeting rooms
- Markets: International
- Age of business: 25 years

Innova Multimedia

- Location: Stephenville
- Industry: Information Technology
- Products/Services: Various software products/educational software
- Markets: International
- Age of business: 9 years
- Ownership: 23% Family-owned; 77% other
- # of Managers: 3
- Current employees:
  - ◊ 15 Full-time
  - ◊ 4 seasonal/contractual part-time
- Does not currently own other businesses
- Has started 2 other businesses prior to this one

J.Petite & Sons

- Location: English Harbour West
- Industry: Fisheries and Aquaculture
- Products/Services: Ground fish/crab/lobster
- Markets: International
- Age of business: 106 years

Jill Dreaddy DanceCo

- Location: Conception Bay South
- Industry: Personal Service
- Products/Services: Dance instruction
- Markets: Local
- Age of business: 5 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
  - ◊ 1 Full-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

King's Point Pottery

- Location: King's Point
- Industry: Craft
- Products/Services: Kitchen / dinnerware clay products
- Markets: Canada, International
- Age of business: 11 years
- Ownership: 100% Family-owned
- # of Managers: 2
- Current employees:
  - ◊ 2 Full-time
  - ◊ 2 seasonal/contractual full-time
- Currently owns one other business
- Has not started other businesses prior to this one

Labrador Hydraulics

- Location: Wabush
- Industry: Wholesale/Industrial Equipment
- Products/Services: Repair/manufacture hydraulic components
- Markets: Provincial and Quebec
- Age of business: 6 years
- Ownership: 50% Family-owned; 50% other
- # of Managers: 1
- Current employees:
  - ◊ 6 Full-time
- Currently owns one other business
- Has started one other business prior to this one

Labrador Inuit Development Corporation

- Location: Nain
- Industry: Mining/Fishing
- Products/Services: Dimension stone/fish products/real estate
- Markets: International
- Age of business: 23 years
- Ownership: 100% Non-family-owned
- # of Managers: 4
- Current employees:
  - ◊ 70 Full-time
  - ◊ 120 seasonal/contractual full-time
- Currently owns 10 other businesses
- Has not started other businesses prior to this one

Labrador Rewinding

- Location: Wabush
- Industry: Business services
- Products/Services: Rewind electrical motors
- Markets: Provincial and Quebec
- Age of business: 10 years

Mobile Massage Works

- Location: Happy Valley – Goose Bay
- Industry: Personal Service
- Products/Services: Massage therapy/spa treatments
- Markets: Local
- Age of business: 5 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
  - ◊ 1 Full-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

Newfoundland Aqua Products

- Location: Ramea
- Industry: Fisheries and Aquaculture
- Products/Services: marine plants/ supplements
- Markets: Canada
- Age of business: 7 years

Newfoundland Naturals

- Location: St. John's
- Industry: Manufacturing
- Products/Services: Personal care products
- Markets: Canada and U.S.
- Age of business: 8 years
- Ownership: 100% Family-owned
- # of Managers: 3
- Current employees:
    - 10 Full-time
    - 4 Part-time
- Does not currently own other businesses
- Has started one other business prior to this one

Nortique Fashions

- Location: Corner Brook
- Industry: Manufacturing
- Products/Services: Apparel products/embroidery/sewing
- Markets: Canada
- Age of business: 15 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
    - 4 Full-time
    - 8 Part-time
    - 2 seasonal/contractual full-time
    - 4 seasonal/contractual part-time
- Currently owns one other business
- Has not started other businesses prior to this one

Paterson Woodworking

- Location: Amherst Cove
- Industry: Manufacturing
- Products/Services: Household furniture
- Markets: St. John's
- Age of business: 11 years

Pat's Plants & Gardens

- Location: Bay Bulls
- Industry: Agriculture
- Products/Services: Flowers/plants/supplies
- Markets: Local
- Age of business: 16 years
- Ownership: 100% Family-owned
- # of Managers: 2
- Current employees:
    - ◊ 1 seasonal/contractual Full-time
    - ◊ 2 seasonal/contractual Part-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

Peyton's Flowers

- Location: Gander
- Industry: Retail
- Products/Services: Flowers/plants
- Markets: International
- Age of business: 30 years

ProWeld Industries

- Location: Bishop's Falls
- Industry: Manufacturing
- Products/Services: Metal machining/steel fabrication/equipment rentals
- Markets: Provincial
- Age of business: 33 years
- Ownership: 100% Family-owned
- # of Managers: 2
- Current employees:
    - ◊ 16 Full-time
    - ◊ 3 seasonal/contractual Part-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

RPM Rebuild Pumps & Motors

- Location: Carbonear
- Industry: Business Services
- Products/Services: Electrical apparatus rewind and repair
- Markets: Provincial and International
- Age of business: 11 years
- Ownership: 100% Family-owned
- # of Managers: 1
- Current employees:
    - ◊ 5 Full-time
- Does not currently own other businesses
- Has not started other businesses prior to this one

Tuckamore Lodge

- Location: Main Brook
- Industry: Personal Service
- Products/Services: Big game hunting/fishing lodge/adventure tourism
- Markets: International
- Age of business: 18 years
- Ownership: 100% Family-owned
- # of Managers: 2
- Current employees:
    - ◊ 2 Full-time
    - ◊ 2 Part-time
    - ◊ 5 seasonal/contractual full-time
    - ◊ 10 seasonal/contractual part-time
- Currently owns other businesses
- Has started 2 other businesses prior to this one

Vogue Furriers

- Location: St. John's
- Industry: Retail
- Products/Services: Leather/fur clothing
- Markets: Provincial
- Age of business: 20 years

Royal Commission on Renewing
and Strengthening Our Place in Canada

The Fiscal Position of Newfoundland and Labrador

— David G. Norris

June 2003

The views expressed herein are solely those of the author and do not necessarily reflect those of the Royal Commission on Renewing and Strengthening Our Place in Canada.

Contents

Executive Summary 279

Chapter 1: The History and Current State of Public Finance 289

Budgetary History 289

"One-Time" – Non-Core Revenues 303

Financial Obligations – Beyond the Reported Budgetary Position 306

Budget Smoothing 308

"Inconsistent Reporting" – Budget vs Public Accounts 310

Provincial Debt Trends 312

Credit Rating Assessments 325

Fiscal Position in 2003 – An Assessment 329

Mixed Signals 335

Chapter 2: Relative Fiscal and Economic Position 339

Where Do We Stand in Canada? 339

Revenue Comparisons 346

Expenditure Comparison 358

Economic Comparisons 373

GDP Trends vs. Fiscal Trends 381

Chapter 3: Financial Outlook for Newfoundland and Labrador 385

Financial Outlook - Perceptions 385

Context of Financial Outlook 385

Assessing The Potential Revenue Impact of Offshore Oil 386

Overall Sharing of Total Government Revenues 391

Overall Fiscal Outlook For The Province 392

Fiscal Outlook in Perspective: 396

GDP Growth and Budgetary Strength - - Not Synonymous 400

Chapter 4: Financial Issues and Options 401

Fiscal Challenges 401

Fiscal Targets 405

A Balanced Approach — Two Dimensions 407

The Provincial Dimension 408

The Federal Dimension 413

A Long Term Investment — Debt Reduction Concept 416

Endnotes 419

Appendix "A": **Terms of Reference** 422

Appendix "B": **Summary of Current and Related Revenues** 425

Appendix "C": **Unfunded Pension Liabilities — Background Information** 426

Current Fiscal Position & Financial Prospects
Province of Newfoundland and Labrador

Executive Summary

This assessment of the financial position of the province of Newfoundland and Labrador is divided into four main sections: (i) history and current state of public finance; (ii) relative economic and fiscal position; (iii) financial outlook; and (iv) financial issues and options.

The History and Current State of Public Finance

The review of the history and current state of public finance in Newfoundland and Labrador incorporates an overview of the fiscal position of the province dating back to Confederation. It includes an assessment of the key factors which have influenced budgetary results in recent years (highlighting elements of a non-recurring nature); an examination of the underlying deficit; a perspective on the relative magnitude and trends in the provincial debt including the impact which unfunded pension liabilities have on the overall debt profile of the province; as well as a review of the provincial credit rating and an assessment of the provincial budgetary position on a go-forward basis.

- **At the point of union** with Canada in 1949, Newfoundland and Labrador had a balanced budget, no debt and an accumulated cash surplus of $40 million. Since that time the province has recorded deficits in 51 of 54 years.
- While **budgetary deficits** ranged as high as 35 per cent of total revenues or seven per cent of GDP as recently as the early '70s, they have declined significantly in relative terms in recent years. In 2001-02 the reported budgetary deficit of $47 million was equivalent to 1.2 per cent of revenues and 0.3 per cent of GDP. (The recent 2003-04 budgetary deficit ranges from 1.3 per cent to 4.0 per cent of GDP depending on the definition of the deficit.)
- The fiscal and economic history of the province reflects the **ongoing struggle** of a small population base, widely dispersed over a large geographic area, with a narrow, relatively weak economic base and inadequate or substandard infrastructure and public services – a province on a perpetual crusade to "catch up" with the rest of the country.
- The province encountered major **budgetary challenges** in the early 1990's, commencing with "a financial crisis" in 1990-91 when it recorded a deficit of $347 million – its largest reported budgetary deficit ever in absolute terms. Government responded to the deficit with a severe and far-reaching restraint program. By the mid-nineties, with the help of some non-recurring revenues, the annual deficit was virtually eliminated. With the 2003 budget, the deficit gap has again widened, yielding a "cash deficit of $213 million or $287 million on a "consolidated" basis including borrowings for various government entities.

- **Expenditure trends** over the past decade highlight the pronounced acceleration in health care spending (in keeping with the national trend). Near-term expenditure growth is accentuated by significant increases in public sector compensation. Debt service costs remain high at over 14 per cent of revenues fueled by ongoing requirements to fund deficits and pension obligations. Financial support through federal/provincial cost-sharing agreements is on the decline.
- Almost 60 per cent of the **total revenues** of Newfoundland and Labrador are now derived from provincial "own source" revenues while 40 per cent comes from federal sources (compared with a 50/50 split in the early '80s). Revenue growth in recent years has been dampened by: provincial tax reductions; the decline in the population of the province (10.5 per cent since 1992) and restraint in federal funding for health care and social services (CHST). Natural resource taxes and royalties had not figured prominently in the provincial revenue stream up to the 2002-03 budget. However, the actual revenues from this source for 2002-03 are now estimated at $88 million up from the budgeted level of $50 million. The budgeted gross revenues from these taxes and royalties are projected to rise to over $150 million in 2003-04. In future years, as these revenues continue to increase, they will be significantly offset by declines in equalization.
- Despite the ongoing **growth in expenditures and dampened revenue growth** in the late 1990s through to 2001-02, the reported budgetary deficit had been held to less than $50 million. The budgetary performance was facilitated by the combination of a series of "one time" or non-recurring revenue items and a budgetary smoothing strategy employed by government.
- **"One-time revenues"** contributed $217 million to narrowing the deficit gap in 2001-02. Similar types of revenues budgeted for 2002-03 totaled $232 million, in the absence of which, the 2002 budget would have projected a deficit of some $325 million. Unexpected growth in core provincial revenues during the year resulted in government deferring all but $80 million of the planned one-time revenues in 2002-03.
- **Unbudgeted expenditure obligations** related to hospital and school board operating deficits in 2000-01 and 2001-02 totaled $73 million and $22 million, respectively. Government has indicated it is making progress in this area and deficits are coming down. The 2003 budget for the first time highlighted the borrowing obligations of various government entities related to school construction, municipal financing and the "Rooms". This requirement increased government's consolidated deficit by $82 million in 2002-03 and by $74 million in the 2003-04 budget.
- In recent years, the trend in the underlying deficit of the province has been partially overshadowed by the **budget smoothing technique** used by government. At times when government has received significantly favourable revenue adjustments during the year, rather than record a high surplus, it has shifted certain revenues forward the subsequent year to lessen the impending deficit in that year.
- **Inconsistency in financial reporting** has generated confusion as to the "real" financial position of the province. In the past, the Government of Newfoundland and Labrador utilized two different accounting methods for its financial reporting. In 2001-02 for example, the "modified cash" basis of accounting used for budgetary reporting indicated

a deficit of $47 million – while the "accrual" based accounting methodology, used in the audited public accounts, indicated a deficit of $473 million. In the 2003 budget, for the first time, government reported its budgetary position using three indicators: (i) the traditional "cash deficit" of $213 million; (ii) a consolidated deficit of $287 million (also a "cash" based approach); and (iii) the "accrual deficit" of $666 million.

- The **largest difference in the two basic accounting approaches**, cash vs. accrual, relates to the treatment of pension interest and the accrued pension costs. These net pension expenses totaled $186 million in 2001-02 and are projected at $302 million in 2003-04. These costs are included in accrual reporting but not government's customary cash-based budget reporting (no numbers have been provided by government for 2002-03).
- The historical review of the trend in **"total public sector debt"** reveals a significant escalation since the mid-seventies, to $7.9 billion at March 31, 2003. This is now budgeted to increase to $8.3 billion in 2003-04. Comparisons with the level of debt in other provinces have been made using the concept of **taxpayer-supported debt,** which excludes the self-sustaining debt of crown agencies such as provincial hydro electric corporations. By this measure, Newfoundland and Labrador has the second highest level of per capita debt ($13,000) among all the provinces (just behind Quebec) and the second highest debt to GDP ratio (second only to Nova Scotia).
- **Unfunded pension liabilities** of the Government of Newfoundland and Labrador total $3.4 billion, which adds a significant additional dimension to this province's debt profile. At an estimated $6,470 per capita, these liabilities in Newfoundland and Labrador are the highest of any province in Canada (Quebec is second highest at $4,990 per capita). This province's unfunded pension liabilities stand in stark contrast to the levels in the other Atlantic provinces; Nova Scotia for example, has unfunded pension liabilities of only $990 per capita while New Brunswick is even lower at $430 per capita.
- The combination of taxpayer-supported debt with the unfunded pension liabilities indicates that Newfoundland and Labrador has the **highest combined debt burden** of all the provinces at $19,500 per capita and the highest combined overall debt to GDP ratio of 66.7 per cent. Quebec has the next highest combined debt burden at $18,200 per capita and a debt to GDP ratio of 58.4 per cent.
- Despite its relatively high level, the current **debt to GDP ratio** in Newfoundland and Labrador reflects a significant improvement from the levels recorded in the last decade. In the last six years alone the combined debt to GDP ratio declined from 80.9 per cent to 66.7 per cent. (This ratio is one of the key indicators followed by the credit rating agencies.) Most provinces have also recorded improvements in this ratio in recent years and the Government of Canada also recorded progress with a reduction from 69.7 per cent in 1996-97 to 46.6 per cent in 2002-03.
- While Newfoundland and Labrador's **credit rating** has been upgraded somewhat by all three major credit rating agencies in the last five years, the province still ranks as the lowest among all Canadian provinces. The credit rating outlook overall remains stable with signs of encouragement noted in relation to major resource developments.

improved debt ratios and stable federal transfers. The rating agencies also emphasize the importance of an ongoing commitment to fiscal balance.

- The **budgetary position in 2003** indicates a pronounced increase in the budgetary deficit which ranges from $213 million to $666 million by different measures. Real GDP growth of 8.2 per cent in 2002 contributed to strong growth in provincial source revenues in 2002-03, far exceeding budgetary expectations. However, in 2003-04, overall current account and related revenues are budgeted to increase by only 0.5 per cent while current account expenditures are up by 4.9 per cent.
- **Government terms its deficit "affordable"** and will target to eliminate it (the $287 million consolidated deficit) in four years, potentially at the rate of $75 million a year based on an expectation of strong provincial source revenue growth. The budget does not present a plan to achieve the deficit reduction, nor does it provide multi-year projections. The budget does not address the elimination of the $666 million consolidated accrual deficit.
- **The provincial public sector debt** is slated to increase by $450 million to $8.3 billion in 2003-04 – an increase of $1.8 billion since March 1999. In the five years ending March 31, 2004, total public sector debt is projected to have increased by $350 million a year.
- The budget presents a chart which shows a rapid run up in **revenues from offshore oil** to 2006-07. However, the chart does not reveal the entire story: (i) in the years to come the "net" revenue benefit to the province will be only 30 per cent to 40 per cent of the totals indicated due to equalization losses; and (ii) in the absence of new developments, these revenues are expected to begin to decline by 2011 and decline steeply thereafter.
- The examination of the province's fiscal position on a go-forward basis projects an **underlying consolidated deficit** in excess of $420 million, and upwards of $750 million on an accrual basis. This outlook assumes "one-time revenues" have been exhausted and incorporates the incremental borrowing commitments related to hospitals, schools and municipalities.
- The overall assessment, including the views of external analysts, portrays **mixed signals** with respect to the fiscal prospects for the province. From one perspective there is the relatively favourable budgetary report card as set by government, coupled with strong economic performance and a generally favourable assessment of the economic outlook. From another perspective, there is a more critical assessment of a deteriorating budgetary position, an "unsustainable" deficit and an "increasing" debt burden.
- Overall, Newfoundland and Labrador is confronting significant **budgetary challenges** in the near term. They are rooted in: (i) constrained revenue growth over the years; (ii) the depletion of one-time revenues; (iii) increased expenditure commitments, particularly related to public sector compensation and the escalation in health costs; and (iv) the workings of the equalization formula which substantially reduce the net benefit to the province from the increasing offshore oil revenues. The assessment illustrates the major inconsistencies between the expectations one might derive from the current economic trends as depicted by GDP growth, and the realities of the widening deficit gap and mounting debt load.

Relative Fiscal and Economic Position

Newfoundland and Labrador's fiscal and economic trends are compared with the fiscal and economic progress of the Government of Canada and the other provinces in order to place this province's performance in perspective as measured by a number of financial and economic indicators.

- **Canada** as a nation has achieved remarkable **economic and fiscal progress** in the last decade. It advanced from a recession and a record national deficit of $42 billion in the early 1990s to a favourable growth pattern and a consistent record of fiscal surpluses in the last six years. It has recently recorded the largest reduction in debt among the G7 countries and, in 2003, is projected to be the only G7 country in surplus.
- Newfoundland and Labrador's current **fiscal trend** is somewhat at variance with the national trend and that of most provinces. **All provinces** recorded large deficits in the early '90s, and then generally, including Newfoundland and Labrador, focused on restoring fiscal balance. By 2002-03, seven of the 10 provinces had budgeted for a surplus. While Newfoundland and Labrador progressed through to the mid-90s focused on fiscal balance and budgetary restraint like most provinces, it remains in a deficit position with a mounting underlying deficit trend. Over the past number of years, eight provinces have passed **balanced-budget legislation** – Newfoundland and Labrador and P.E.I. are the only provinces that have not done so. *It is recommended the Government of Newfoundland and Labrador introduce balanced budget legislation.*
- A review of the relative provincial **tax effort** indicates that Newfoundland and Labrador has the third highest overall tax effort. Examples of the relative tax rates show this province with: the second highest level of personal income tax, the highest fuel taxes, and mid-range sales taxes, tobacco taxes and corporate income taxes. The overall fiscal capacity of the province, however, is only 68.5 per cent of the national average, generally on a par with P.E.I., tied for the lowest for fiscal capacity amongst the provinces.
- **Provincial government expenditures** represent a relatively large component of the economy of Newfoundland and Labrador. At 30.9 per cent of GDP, it is the highest ratio among the provinces. This province's per capita expenditures exceeded the national average by more than 17 per cent in 2001-02. (It is noted that the decline in population has increased all of the per capita indicators for Newfoundland and Labrador.)
- Provincial government per capita **expenditures on health care** in Newfoundland and Labrador are the highest of any province, while government's **education** expenditures are above average and third highest. However, many other provinces have a greater proportion of funding for health and education provided through private sources, local government funding, fees and other sources (over and above provincial government funding).
- **Debt service costs** on Newfoundland and Labrador's funded debt rank third highest among the provinces as a percentage of revenues, and second highest on a per capita basis and as a percentage of GDP. The inclusion of interest costs on the unfunded pension liabilities makes the comparison even less favourable.

- A review of Newfoundland and Labrador's economic progress by **key indicators** at the end of 2001 indicates: i) the lowest per capita **personal income** (23.1 per cent below the national average); ii) the highest **unemployment** rate (more than double the national average; and, notwithstanding the impact of offshore oil production, iii) the second lowest **GDP** per capita (updated data for 2002 could change some of these indicators).
- Newfoundland and Labrador's **GDP growth** has exceeded the national average in three of the last five years, led by the increased value of oil production. However, the province lagged the national average GDP growth in the six years prior to the commencement of oil production in 1998. In the 10 years from 1991 to 2001 this province's **cumulative GDP growth** in real terms, was 14.8 per cent below the national average GDP growth. The province's GDP perspective reveals: (i) a relatively low economic base; (ii) a high degree of volatility; and (iii) recent growth dominated by increased oil production.

Cumulatively, the province ranked second from the bottom of all provinces in GDP growth from 1991 to 2001.

- Strong **GDP growth** in Newfoundland and Labrador has not resulted in improved budgetary strength. Increased expenditure commitments and constrained revenue growth point to increased **budgetary deficits** for Newfoundland and Labrador in the near-term – at a time when GDP is expected to continue to climb and most provinces are targeting for fiscal balance.
- The current fiscal direction of Newfoundland and Labrador is not aligned with its near-term GDP growth prospects nor the expectations of many. A deteriorating budgetary position, increasing debt load, high tax burden with little prospect of reduction, combined with substantial ongoing unemployment and personal income disparities all serve to illustrate that Newfoundland and Labrador still has **a long way to go** to bring its overall relative position up to the Canadian average.

Financial Outlook for Newfoundland and Labrador

The overall financial outlook for Newfoundland and Labrador is examined in the context of its near-term fiscal situation and the potential impacts which major resource developments, particularly offshore oil are expected to have on the province's financial prospects given the existing public policy framework. This general outlook for the province is then reviewed in the context of the current economic and budgetary prospects of governments of Canada and the other provinces.

- The outlook is intended to be a broad based **assessment of trends and general indicators**. While specific trends and growth rates have been assumed for a number of key variables, obviously, there will be many unpredictable changes in such variables. In this regard the reader is urged not to focus on absolutes but to consider the nature of the key issues at play, the relationships between these issues, as well as general trends and orders of magnitude.

- The **potential revenue streams** from offshore oil production are widely expected to offer the largest incremental gains to the fiscal position of Newfoundland and Labrador in the coming years. Also, the development of the White Rose project, as well as the development of the Voisey's Bay project and potentially a Lower Churchill hydro project are assumed to maintain positive momentum in such key revenue sources as sales tax, personal income tax and corporate income tax.
- The analysis of the potential revenues from offshore oil highlights a major **sensitivity to oil prices.** For example, gross annual provincial type revenues (e.g., royalties and corporate income tax) are projected to peak at over $800 million a year with a long-term price assumption of $24 U.S. a barrel. At $19 U.S. a barrel, gross provincial revenues could be 40 per cent less. While this highlights the sensitivity of gross provincial revenues to oil prices, it is noted that because of the equalization impact the net revenue change for the province is considerably less. ($24.00 U.S. has been used in the base case analysis.)
- There is a significant element of uncertainty surrounding the proportion of **provincial corporate income tax (CIT)** that will be attributed to and collected by this province. This is due to the multi-dimensioned nature of the oil companies. It is difficult to determine the extent to which their income will be attributed to this province as opposed to other jurisdictions. The companies operate in a number of different jurisdictions and have a wide range of projects ongoing with different levels of profitability. For the purpose of the analysis it has been assumed that this province will capture 25 per cent of the provincial type CIT.
- The projections of annual oil revenues using the planning assumptions as outlined in this analysis indicate a significant **"revenue bump"** which gains increasing prominence in the coming years, peaks around the years 2009-10, and then begins to decline significantly around 2011-12. The expected escalation is rapid, the peak is relatively short-lived, and the decline is steep.
- In the absence of revenue-offset protections, **equalization** would decline dollar for dollar as oil revenues increase. (In short, there would be no net revenue gain.) The **Atlantic Accord** provides time-limited protection through a rather complex two-phase formula. The degree of protection under this formula phases down in the coming years and expires completely by 2011. In addition, the province also has the option to choose the alternative revenue protection mechanism afforded by the **"generic solution"**. This alternative limits the loss of equalization to 70 cents on the dollar. It is difficult to predict which is the better formula in any given year, however, it has been assumed that the Atlantic Accord will be more favourable in the near-term but the generic solution will become the formula of choice as the Accord formula phases down (and before it expires in 2011).
- In the medium to long-term the revenue protection provisions of the **Atlantic Accord will no longer be operative**. Beyond the next few years, under existing arrangements, the province can only expect to retain a net amount equivalent to 30 per cent of its oil revenues under the generic solution (based on the assumption that this element of the fiscal arrangements is continued).

- **The oil revenue analysis highlights**: i) the rapid escalation in gross provincial oil revenues, the relatively short-lived "revenue bump" and the steep decline in revenues after the peak years; ii) the declining and time-limited protection of the Atlantic Accord which results in recourse to the 30 per cent protection of the generic solution after the next few years; and most importantly; iii) an effective net retention by the province of only 37.4 per cent of provincial type revenues from the existing projects.
- Contrary to a key objective of the Atlantic Accord, **Newfoundland and Labrador will not be the principal beneficiary of its offshore oil revenues**. When federal corporate income tax is included, the analysis of total government revenues concludes that Newfoundland and Labrador would be the net beneficiary of just 23.4 per cent of the total government revenues from offshore oil, while the Government of Canada's effective share is projected at 76.6 per cent.
- The **outlook for the overall budgetary position** of the province is assessed based on the oil revenue assumptions and projections outlined above. It starts from an underlying deficit position which is considered to be in the order of $400 million. This outlook is predicated upon a review of recent economic and fiscal experience as well as an analysis of revenue and expenditure trends. It assumes no change in tax policy or spending patterns.
- *The assessment concludes that the budgetary deficit is not self-correcting.* On a "go-forward" basis the **trends point to ongoing deficits in the order of $250 million to $500 million a year.** Public sector debt is projected to continue to escalate.
- The current **deficit trend is unsustainable**. A "status quo" fiscal policy stance will not see the deficit eliminated. *It is recommended that government firmly commit to the restoration of budgetary balance through a clearly articulated strategy that addresses both expenditure growth, and to the extent practical, revenue enhancement.*
- The fiscal outlook for Newfoundland and Labrador stands in **stark contrast** to that of the Government of Canada which is continuing its commitment to fiscal balance and to budget for an underlying surplus of $4-$5 billion in the coming years. Seven provinces are projecting balanced budgets in the coming years and the eighth, B.C., is targeting a balanced budget by 2004-05.
- The economic outlook for Newfoundland and Labrador continues to be quite favourable, led by the continuation of major resource projects. Unfortunately, **economic growth has not to this point become synonymous with fiscal strength for Newfoundland and Labrador.**

Financial Issues and Options

The foregoing analysis indicates that the Province of Newfoundland and Labrador is confronting major financial challenges which are not removed by the new oil revenues. The situation calls for a balanced, provincial/federal approach. It should encompass significant new fiscal and budgetary initiatives by the province and a renewal of revenue sharing arrangements with the Government of Canada particularly related to equalization and the Atlantic Accord.

- The **fiscal challenges** confronting the Province of Newfoundland and Labrador are centered around i) a significant budgetary deficit totaling $666 million (on an accrual basis); ii) a debt burden which, including unfunded liabilities, is $19,500 per capita (the highest in the country); iii) the third highest tax burden, iv) a population decline in excess of 10 per cent in the last 10 years; v) an inability to realize significant fiscal gains from its substantial offshore petroleum resources and vi) the withdrawal of the Government of Canada from key cost-shared funding arrangements.
- The **fiscal targets** for the foreseeable future should be focused on the fiscal fundamentals: i) balance the budget; ii) stop the escalation of debt and iii) stop the deterioration in the relative tax position. A reduction in the debt to GDP ratio, as well as the reduction in the deficit to GDP and the deficit to total revenue ratios could all be considered as potential fiscal targets. Some of these ratios are influenced by external forces and it is crucial that government not divert its focus from the fundamentals.
- There are **two dimensions** to confronting the fiscal challenges of Newfoundland and Labrador: A provincial dimension – based on fiscal management renewal and a fiscal recovery strategy. A federal dimension – incorporating revised equalization and resource revenue sharing arrangements and revitalized federal / provincial cost-shared agreements;
- *It is recommended that the provincial government make a firm commitment to a fiscal renewal plan which would include: i) a commitment to balance the budget within three to four years; ii) balanced budget legislation; iii) the transition to a single method of financial reporting; iv) the tabling of a three or four year rolling financial plan annually; and v) an expanded reporting scope to encompass key government agencies (implicit in iii) above).*
- *It is recommended that government's approach to balancing the budget encompass: i) a comprehensive, government-wide program review process; ii) a concentrated overhead reduction initiative; iii) a particular focus on programs where the cost of delivery exceeds the national average; iv) an effort to use the upcoming increase in retirements from the public service to accomplish cost-savings through attrition; v) increases in various fees and taxes (to the extent that the province's competitive position can be maintained); vii) an examination of the merits of privatizing various functions; and viii) signals from the top – a number of measures initiated at the highest level of government to signal commitment fiscal recovery.*
- The workings of the equalization formula continue to have a vital impact on the overall revenue base of the province. **The Standing Senate Committee on National Finance** recently conducted a detailed study on equalization and recommended that the formula be revised to restore the 10 **province standard** (and replace the existing five province standard). *This recommendation is consistent with the underlying principles of equalization and The Royal Commission should support it.*
- The Senate Committee acknowledged the **"exasperating predicament"** confronted by Newfoundland and Labrador and others, in seeing the revenue gains from offshore oil lost through reductions in equalization. It recommended that these issues be dealt with, not in the equalization formula per se, but through; i) an increase in the provincial share

of entitlements under the Generic Solution and ii) a re-examination of the Atlantic Accord.

- There are a number of issues arising from **the Atlantic Accord** as currently structured: i) the proportionate level of revenue protection afforded is already declining, before peak oil revenues and economic and fiscal progress are attained; ii) the formula is only effective when revenues are rising, it is of no benefit when revenues are level or declining and, iii) the arrangements expire entirely in 2011.
- Future projections based on recent experience and current assumptions reveal that oil revenues are not projected to reach the point where equalization payments would be eliminated and 100 per cent of the resource revenues would flow to the province. Furthermore, oil revenues are not projected to be sustained at peak levels – a relatively **short-lived "revenue bump"** is projected.
- Beyond the early years the **generic solution** provides the only revenue protection but, i) it is limited to 30 per cent and, ii) it is not guaranteed beyond the term of the existing fiscal arrangements.
- Newfoundland and Labrador is **not the principal beneficiary** of offshore oil revenues. The province is expected to realize approximately 37 per cent of provincial-type oil revenues. A further revenue analysis which includes total government revenues (including federal corporate income tax) indicates the provincial net share will be in the order of 20 to 25 per cent of combined federal and provincial oil revenues .
- *It is recommended that the equalization formula be amended to restore the 10 province standard, that the equalization "floor" be retained, and that both the equalization and CHST programs be modified to incorporate reasonable accommodation for provinces experiencing significant declines in population.*
- *It is recommended that the Government of Newfoundland and Labrador and the Government of Canada enter into negotiations to amend the Atlantic Accord to ensure that the "principal beneficiary" objective is met through an increase in the proportion of net government revenues that will be retained by the province. Furthermore, the amended Accord should ensure that the province continues to receive a proportionately greater net share of provincial oil revenues as long as it remains below the Canadian average on key economic and fiscal measures.*
- *It is recommended that the Royal Commission support the revitalization of federal provincial cost-shared programs focused on rural development and infrastructure improvement.*
- *From a longer-term perspective, it is recommended that both orders of government give serious consideration to innovative means of revenue sharing whereby a portion of the revenues from non-renewable resources might be invested to reduce the provincial public sector debt and thereby reduce the highest provincial debt burden in the country for the lasting benefit of its future generations.*

Chapter 1

The History and Current State of Public Finance

An overview of the evolution of the financial position of the Province of Newfoundland and Labrador

> *Newfoundland has great and valuable natural resources of fish and minerals and timber and water power and soil. She has stout-hearted people of unsurpassed racial and national origins. She has joined in union with a great British nation. She has a Government that is moved by unshakeable faith in Newfoundland's destiny. The combination is irresistible. Greatness is her due, as surely as the sparks fly upward.*
>
> *Hon. Gregory J. Power*
> *Minister of Finance*
> *Newfoundland and Labrador*
> *Budget Speech, May 31, 1954*

Budgetary History

Challenges, Progress and Deficits

When Newfoundland and Labrador joined Canada in 1949 it had a balanced budget and no debt. In the 1949 Budget Speech the Minister of Finance reported that *"our cash surplus on the day before Confederation was roundly $40,000,000."* The fiscal balance did not reveal the entire story of Canada's newest province.

Newfoundland and Labrador faced the gargantuan challenges of: i) a widely dispersed rural population distributed over a vast land mass; ii) inadequate health, education and social welfare services and facilities; iii) inadequate, and in some cases non-existent transportation and municipal infrastructure; iv) high unemployment and low personal incomes; and v) a narrow underdeveloped economy based primarily on seasonal, and cyclical resource-based industries.

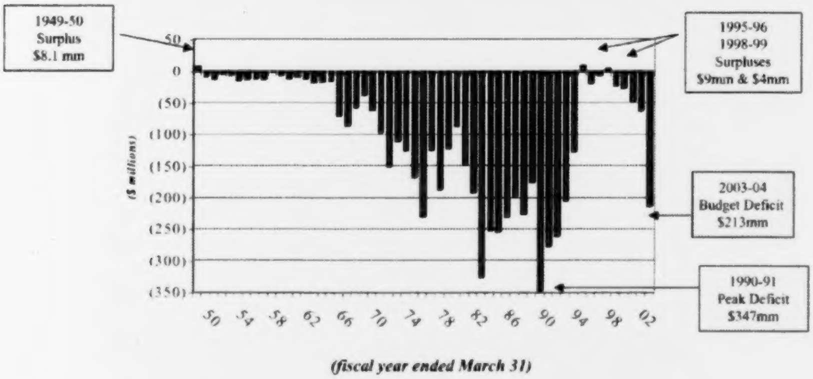
The unrelenting quest of the people of Newfoundland and Labrador to "catch up" with the rest of the nation in the level of quality and availability of public services has led to immense investments of public funds year after year by both the Government of Canada and the Government of Newfoundland and Labrador. While enormous progress has been achieved, the province still has a considerable distance to go in order to approach the national average in many key areas.

In many respects, the price of progress is reflected in the budgetary history and resulting debt profile of the province.

Since Confederation, the province's fiscal position can be characterized as a perpetual struggle with deficit financing. The budgetary chronology prepared for the Royal Commission by the provincial Department of Finance indicates that since joining Canada, Newfoundland and Labrador has recorded deficits in 51 of the 54 years, and is projected to record its 52nd deficit in 2003-04. A trend to increasing deficits has again emerged in recent years as illustrated in Chart 1-1:

Chart 1-1

Deficit / Surplus of Newfoundland & Labrador
1949-50 to 2003-04 Budget



Source: Government of Newfoundland & Labrador, Department of Finance; Public Accounts 1949-50 to 2001-02 and Budget 2002 and Budget 2003. The projections for 2002-03 are based on the budgetary "Cash Deficit" to maintain comparability with prior years. See Note 1.

An analysis of the deficit in any one-year will reflect a number of specific policy initiatives, events or economic circumstances related to that particular year. However, an overall assessment of the expenditure and revenue trends over the years reveals a number of generally recurring elements:

a) **The need to "catch-up" in public services**: Since Confederation, Newfoundland and Labrador has been in a continuing struggle, first to provide for the most basic of services and then, to improve the level and quality of public services to the standards generally enjoyed by other Canadians. This applies to health care, social services, education, transportation and municipal infrastructure.

b) **The disproportionately high cost of servicing a small, dispersed population:** Newfoundland and Labrador comprises an area of over 400,000 square kilometers. It is seven times the size of Nova Scotia with only 55 per cent of the population. The remoteness of many communities, the large distances between communities, the lack of an efficient transportation network, coupled with a harsh climate, all add to the cost of providing public services.

c) **A limited revenue base**: The province's fiscal capacity was and remains significantly below the national average. From the 1970's to the turn of the century it generally remained 35 to 40 per cent below the national average. The province has one of the heaviest tax burdens in the country, at 113.8 per cent of the national average, yet it only generates approximately 60 per cent of its revenue requirements from provincial sources. Major natural resource developments, particularly hydro and mineral resources have not contributed significantly to the provincial revenue base.

d) **A narrow economic base**: Historically, the economy was characterized by low personal income, a high level of seasonality in employment and consistently high unemployment. The resultant pressures were manifested in relatively high social assistance payments as well as various types of industrial investment initiatives undertaken by governments (with limited success) to broaden and diversify the economy and attempt to generate employment. While the development of the offshore petroleum-related sector of the economy in the late 1980s and the 1990s was an important new dimension in broadening the economy, in many respects it simply helped offset the impact of the collapse of the groundfish resource which historically had been regarded as the backbone of the economy.

e) **A reduction in the proportion of federal funding**: Federal funding arrangements have changed over the years from various kinds of cost sharing formulae for social programs to per capita grants (CHST). In the last several years the growth in federal funding has not matched the growth in the cost of program delivery, particularly in relation to the cost of health care.

f) **An exposure to overall economic conditions**: While the timing and degree of impact varies, national and international economic trends understandably also play a significant role in the province's fiscal results. For example, rampant inflation and interest rate volatility was a key factor in the early 1980s. Also, the overall recession of the early 1990s was a contributing factor in the province's record deficit of $347 million in 1990-91.

Deficit Trends in Context

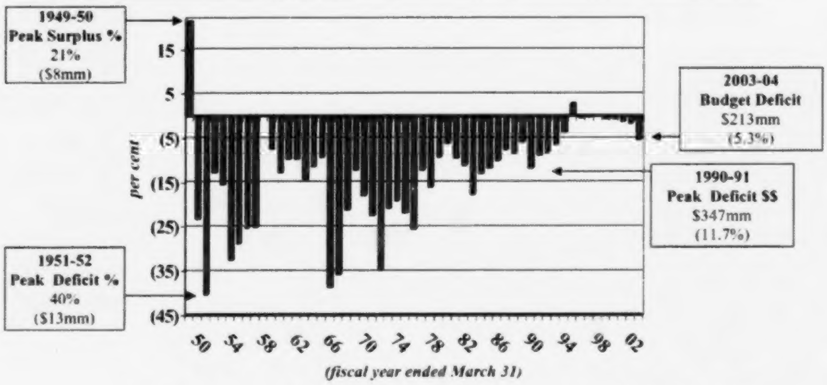
The deficits in the 1950's were generally in the range of $5 million to $15 million. This may seem small in today's terms but total provincial revenues for the full year in 1949-50 were less than $40 million and amounted to only $84 million by 1959-60. By the early 1970s, budgetary deficits were running in excess of $100 million a year. The peak annual deficit of $347 million was recorded in 1990-91.

The annual deficits in current dollars, do not, of course, place the historic budgetary trends in a fair perspective.

Chart 1-2

Deficit/Surplus as a Percentage of Total Revenues

1949-50 to 2003-04 Budget



1949-50
Peak Surplus %
21%
($8mm)

2003-04
Budget Deficit
$213mm
(5.3%)

1990-91
Peak Deficit $$
$347mm
(11.7%)

1951-52
Peak Deficit %
40%
($13mm)

Source: Government of Newfoundland & Labrador, Department of Finance: Public Accounts 1949-50 to 2001-02 and Budget 2003 and calculations by author.

A more relevant examination of budgetary trends reflects the respective budgetary deficits as a percentage of total revenues as illustrated in Chart 1-2:

This analysis puts the deficit in context with the size of the budget. The deficits in the '50s, '60s, and early '70s appeared relatively small in current dollar terms; however, in percentage terms, they were quite significant – 35 per cent of total revenues as late as 1972-73.

In the last 20 years, while the deficits have hit their highest points in dollar terms, they have declined significantly in relation to the size of the overall budget. Most recently, the relative size of the deficit has increased.

The same can be said of the size of the provincial deficit in the context of the economy as illustrated in Table 1-1 below, which provides sample indicators at various points in the last six decades:

Table 1-1

Deficit in Context

Sample Indicators in Six Decades
'50s to '00s

Year	GDP ($millions)	Total Revenue ($ millions)	Deficit ($million)	Deficit/ Revenue	Deficit/ GDP
1951-52	N/A	33	**13**	**40.3%**	**N/A**
1961-62	540	94	**9**	**9.7%**	**1.7%**
1971-72	1,440	431	**97**	**22.4%**	**6.7%**
1981-82	5,150	1,552	**148**	**9.6%**	**2.9%**
1991-92	9,590	3,108	**276**	**8.9%**	**2.9%**
2001-02	13,760	3920	**47**	**1.2%**	**0.3%**
2003-04B	16,750p	4,048	**213**	**5.3%**	**1.3%**

Source: Government of Newfoundland & Labrador, Department of Finance; Public Accounts 1949-50 to 2001-02 and Budget 2003 & calculations by author. GDP for 2003 is projected by the author based on 7.4% nominal growth from 2002 estimate of $15.6 billion.

To maintain comparability, the above chart reflects the deficits in accordance with government's historic reporting practices. On this basis the relative size of deficits has declined significantly in the last 30 years, from levels over 20 per cent of total revenues and almost seven per cent of GDP recorded in the '70s down to the levels of 1.2 per cent of revenue and approximately 0.3 per cent of GDP in 2001-02. More recently, the numbers reflect an increase in the relative size of the deficit – to 5.3 per cent of revenues and 1.3 per cent of GDP in 2003-04 on the historic, modified cash basis of reporting.

Recent Budgetary Trends

While the historical financial perspective dating back to Confederation provides interesting background information, the financial results through the 1990's, and more particularly through the turn of the century, provide a more relevant picture for assessing the current state of public finance in the province.

Newfoundland and Labrador, along with most other provinces and the Government of Canada, was facing a bleak financial picture indeed at the outset of the 1990s.

1990-91 – "Financial Crisis"

In 1990-91 Newfoundland and Labrador incurred its highest deficit ever in dollar terms – $347 million. At that time, the Minister of Finance declared the situation to be a "financial crisis". In his 1991 budget speech he stated:

> *The costs of Government have escalated dramatically in recent years. Transfer payments are being seriously restricted by the financial problems of the Federal Government and by a national recession. The current economic downturn is limiting growth in our tax revenues. We face a financial crisis which, if left unchecked, would impair permanently our ability to maintain public services at acceptable levels.*
>
> *Perhaps the underlying reason for the financial crisis facing this and other governments in Canada today is the expectations of government*
>
> *that almost everyone seems to have...*
>
> *... It is not solely that our expectations of government are too high, but also that governments have not had the political courage to restrict current expenditures to the level of current revenues. Governments in Canada, including Newfoundland, have been living beyond their means and have allowed the public debt to increase year after year, rather than face the people with the grim reality that every increase in expenditure must ultimately be met by increased revenue from taxes.*[1]

A series of severe budgetary restraint measures, followed in successive budgets, which along with an improving economic environment, and some non-recurring adjustments, contributed to the elimination of the deficit by 1995-96.

The Early '90s - Budgetary Restraint

In tackling the 1991 deficit, Newfoundland and Labrador embarked upon one of the most aggressive fiscal restraint programs ever undertaken in the history of the province. It included public service layoffs, wage freezes, hospital bed closures, reduced grants to community colleges, and the MUN School of Medicine, and government-wide program cuts and service reductions. The emphasis on fiscal restraint in Newfoundland and Labrador was in line with, and in some respects possibly more severe than, the budgetary stance taken by other provinces and the federal government at the time.

The continuing restraint program and the improving economy did much to improve the budgetary position through the early 1990s and in fact a surplus was recorded in 1995-96, (with the help of some "extraordinary", or non-recurring revenues, which totaled some $93 million).

Notwithstanding the surplus reported in 1995-96, the Minister of Finance of the day emphasized that "an underlying deficit remains". He called for further budgetary restraint. He highlighted the ongoing spending demands, particularly in the social program areas, in a time when the Government of Canada was cutting transfer payments for health care, post-secondary education and social assistance. Federal cash transfers for social programs were to decline by $110 million in 1996-97 and the amount of the decline was projected to total $160 million by 1997-98. The federal restraint program, which was focused on the eradication of the national deficit, was having a significant impact on the provinces.

Throughout the '90s - Fiscal Recovery

In committing itself to prudent financial management in 1996, Government began budgeting for an annual contingency reserve of $30 million to cover unforeseen requirements during the year. It also initiated a three-year financial planning process to build on the other elements of financial discipline. The three-year financial framework was announced in the 1997 Budget and it targeted a "sustainable balanced budget in 1999-2000".

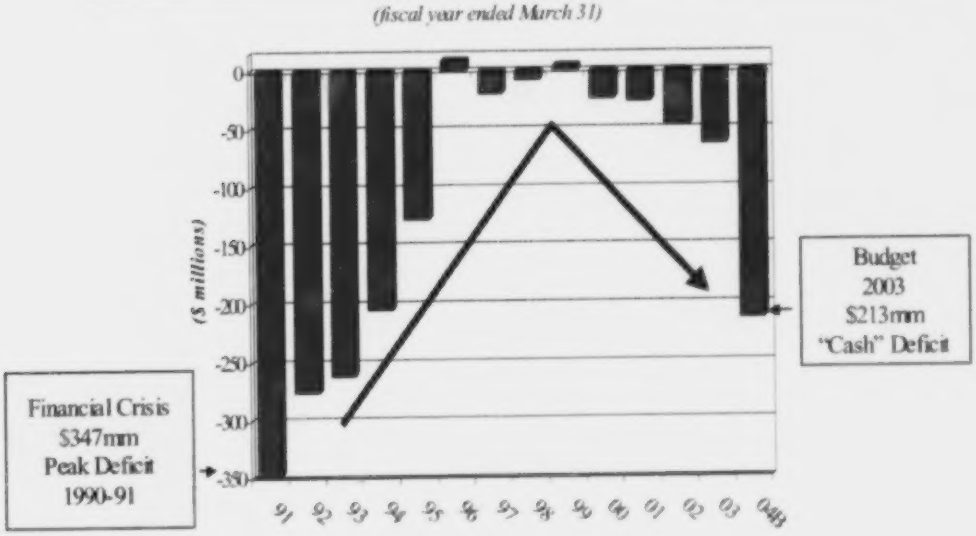
In fact, a surplus of $4 million was recorded in 1998-99 and only modest deficits of $23 million and $26 million were recorded in 1999-2000 and 2000-01, respectively. Budgetary restraint, admittedly augmented by a series of one-time revenue arrangements, had reversed the negative trends apparent at the start of the decade.

By 2001, the Minister of Finance was reporting upon "the best fiscal performance for any consecutive five-year period since the early 1960s."

Chart 1-3

Recent Budgetary Trends

Difficult start to '90s – then Positive Trend – then Increasing Deficits



Source: Department of Finance; Public Accounts 1990-91 to 2001-02 and Budget 2003, based on government's modified "cash" method of reporting.

Today – Increasing Deficit Trend

A deficit of $47 million was recorded in 2001-02, and a deficit of $93 million was budgeted for 2002-03. However, in both cases the net position reflected significant "one-time" revenues.

In fact, by 2002-03, excluding the budgeted one-time revenues, the budgetary deficit was trending toward $300 million. The three-year financial planning process was not continued beyond its initial cycle and the contingency reserve had been reduced from $30 million to $10 million.

The province recorded exceptionally strong growth in 2002 and by the March 2003 year end, government indicated that revenue growth resulting from favourable economic performance had reduced the 2002-03 budgetary deficit from $93 million to $62 million (based on its traditional method of reporting). Some of the one-time revenues budgeted for 2002-03 were deferred.

Nonetheless the budgetary outlook is for an increased deficit. The 2003 budget projected a deficit of $213 million for 2003-04 based on its previous reporting format. In addition government highlighted further borrowing requirements of $74 million for various government entities (school construction, municipal financing and a major heritage project) which brought the "consolidated deficit" to $287 million for 2003-04 (on a comparable basis the 2002-03 consolidated deficit was $143 million). It should be noted as well that there are at least $97 million in one-time revenues reflected in the new budget. Government has, however, indicated it plans to target deficit reduction of $75 million a year over the next four years, which it feels can likely be achieved through continuing revenue growth.

The return to rising deficits is the obvious outcome of ongoing expenditure growth combined with successive years of slower growth in core revenues. In the recent period of increasing deficits from 1999-00 to 2003-04, total revenues are budgeted to be up 13.5 per cent while total expenditures are up 18.8 per cent.

A review of the overall expenditure and revenue trends provides further insight into the elements contributing to the trend toward rising deficits.

Expenditure Trends

The following review of expenditure and revenue trends was prepared based on historical data and the 2002 budget (prior to the release of the 2003 budget on March 27, 2003). In many respects the general trends evident up to and including the 2002-03 budget are still valid, and many of the detailed numbers have not been restated based on the 2003 budget. However, an effort has been made to update the data in those areas where the new budget provides significant additional information or would point to a different trend.

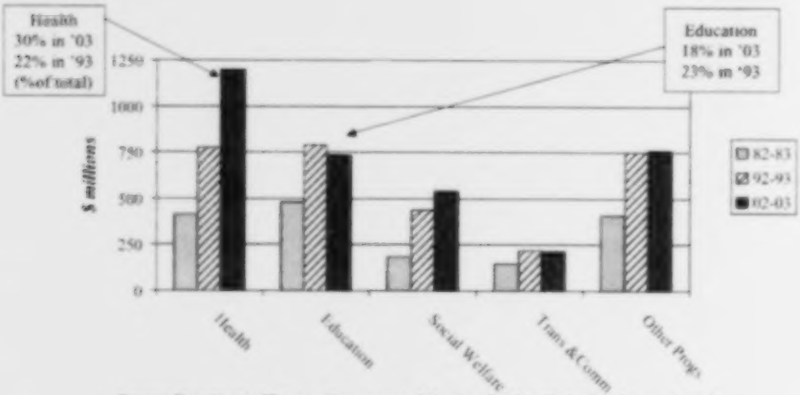
Total provincial government expenditures in the 2002-03 fiscal year were budgeted at almost $4.1 billion, with 30 per cent of the total attributable to health care and 18 per cent related to education. Total expenditures increased by $0.6 billion (17.3 per cent) from 1992-93 to the 2002-03 budget.

The dominant growth component is health care which accounts for over $0.4 billion or 70 per cent of the total increase in government spending since 1992-93:

Chart 1-4

Overall Expenditure Trends

1982-82 – 1992-93 – 2002-03 Budget



Source: Department of Finance, Government of Newfoundland and Labrador, derived from the Public Accounts and the 2002-03 Budget Estimates with expenditures allocated on the basis of Functional Classifications developed by Statistics Canada

Health surpassed education as the leading expenditure component in the provincial budget in 1994-95 and it was budgeted to exceed education by over 60 per cent in 2002-03. Expenditures on education, while ranking second in overall spending by the province, actually declined in the last decade

The major expenditure components reflect differing trends and pressures as outlined below:

i) Health Care

Provincial health care costs were budgeted at $1.2 billion in 2002-03, an increase of 54.5 per cent from the level recorded in 1992-93. This is generally reflective of the all provinces average increase of 51.6 per cent in the 10-year period to March 2002. This rate of growth in health care costs was more than triple the growth in this province's overall program spending of 16.1 per cent in the 10-year period.

The pronounced expenditure growth reflects: increased program delivery costs, increased drug costs, new and upgraded diagnostic services, increased demand for services, new medical procedures as well as substantial capital investment in upgrading, and in some cases replacing, health care buildings, facilities and equipment.

ii) Education

Education expenditures in 2002-03 were budgeted to total $735 million, down 6.6 per cent from the level recorded 10 years earlier, due primarily to declining student enrollment at the primary and secondary levels. Education spending declined from 22.8 per cent of the total budget in 1992-93 to 18.1 per cent in 2002-03. While student enrollment is down over 30 per cent in the last 10 years, teacher allocations and school board grants have not been reduced in direct proportion to the enrollment decline.

iii) **Social Welfare**

Social welfare costs were budgeted at $543 million in 2002-03, up 24.2 per cent in the 10-year period compared with the overall average increase of 16.1 per cent in total program spending. While case loads have declined in recent years, the cost increase is apparently attributable to program enhancements, increased rates and program delivery costs including personnel costs.

iv) **Transportation and Communications**

The 10-year comparison indicates a decline of 3.6 per cent to a budgeted level of $212 million in 2002-03. In the interim, the annual expenditures peaked at $271 million in 2000-01. Operating expenditures were actually up more than 10 per cent in the period; however, volatility in capital spending accounts for the decline. Gross capital expenditures in 2002-03 were budgeted to be $20 million below the 1992-93 level (and more than $50 million below 2000-01).

In addition to the expenditure trends by major program area, there are key broad based elements of expenditure growth which are having a significant impact on the overall budgetary trends:

i) **Public Service Salaries and Benefits**

The total public sector wage and salary bill for all groups is now estimated to be in excess of $2.0 billion. The recent round of negotiations provided for total compensation increases ranging from 15 per cent to more than 17 per cent over a three-year period. It is estimated that the full annualized cost of these increases exceeds $350 million. A significant part of this cost had been reflected in 2002-03, however, it is estimated that a further substantial increment of some $130-140 million remained to be incorporated in the 2003 budget. This has clearly been a key factor in the increased deficit for 2003-04. (The implementation of "pay equity" and a gender neutral job evaluation system has also increased the compensation costs in the last number of years with $50 million budgeted in health facilities for 2003-04.)

ii) **Debt Expenses**

Reduced interest rates have slowed the pace of escalation in debt service costs in the last 10 years. Maturing debt at double-digit interest rates has been replaced by new debt with interest rates in the five per cent to seven per cent range. However, in the 10 years up to March 31, 2003, incremental direct debt totaling $1.6 billion has been put on the books primarily to fund the annual deficits and significant non-budgetary pension contributions (see iii) below). Total debt expenses, capital and current, in 2003-04 are budgeted at $590 million, up 21 per cent from the 1992-93 expenditures.

iii) **Non-Budgetary Pension Contributions**

Since 1997-98 government has been making special annual contributions to the various public sector pension funds, over and above the budgetary contributions, to curtail the growth in its unfunded pension liability (discussed later in "Provincial Debt Trends"). In 2002-03 these contributions totaled $149 million. From a technical perspective, under government's traditional method of budgeting, these special pension contributions were not reflected in the budgetary cash deficit. (These liabilities are already fully reflected in the public accounts and these special contributions transform them from "unfunded" to "funded" liabilities.) However, these contributions are made from borrowed funds which are part of government's annual borrowing requirement. Funding these pension obligations through borrowings increases the direct debt of the province and the associated annual interest cost then becomes a budgetary expense. A total of $840 million has been borrowed to fund pension obligations over the last six years and this is estimated to have added in the order of $50 million to annual interest costs. A further $164 million will be borrowed for this purpose in 2003-04.

iv) **Reduced Capital Expenditures**

Annual capital program expenditures (exclusive of debt changes) have declined approximately 20 per cent in recent years. Gross expenditures on the provincial capital program averaged $300 million a year in the 10 years from 1982-83 to 1992-93 while in the most recent 10 year period, the annual average is in the order of $240 million. (The most notable decrease was in transportation and communications.) Gross capital expenditures in 2002-03 were budgeted at $225 million but the revised estimates in the 2003 budget indicated total expenditures of $206 million for the year.

Based on the foregoing, the dominant factors leading expenditure growth are: the incremental impact of the ongoing escalation of health care costs and public sector compensation arrangements. Furthermore, increasing deficits and additional non-budgeted borrowings for pensions continue to inflate Government's funded debt burden and exacerbate debt service costs.

Trends in Federal/Provincial Cost-Sharing Agreements

In relation to federal/provincial cost-sharing agreements there are really two areas for consideration: i) support for capital projects; and ii) support for traditional regional development cost-shared programs.

In recent years there has been a decline in both the level of **capital expenditures** in the province and the federal support for capital projects under cost-shared agreements. Through the 1990s, from 1989-90 to 1998-99, annual provincial capital expenditures totaled $285 million on average, and the annual federal contribution averaged $91 million (ranging from a low of $66 million in 1989-90 to a high of $133 million in 1992-93). This compares with the recent capital program which has declined to an average of $235 million over the past four years (1999-00 to 2002-03) with an annual average contribution of $63 million from the Government of Canada. This trend, in current dollars, highlights a decline of some 30 per cent in the aggregate revenue received from the Government of Canada for capital projects on an annual basis.

The results for 2002-03 as outlined in the 2003 budget indicate revenue receipts from the Government of Canada for capital projects totaled $48 million, short of the budgeted level of $68 million. The 2003 budget indicates an increase in federal revenue for capital projects to $98 million with the increase related to $25 million in one-time funding for medical equipment and budgeted funding support for various highway projects.

The most significant area of concern relates to the withdrawal of the Government of Canada from the traditional federal/provincial cost-sharing arrangements for regional development. A number of such agreements, highlighted by CEDA (the Canada-Newfoundland and Labrador Comprehensive Economic Development Agreement have expired or are about to expire. While the province budgeted for a one-year $20 million extension (70-30 cost-shared) in 2003, at this point there is no indication that the Government of Canada will agree. While the regional development challenges remain – failure to renew the agreements in this traditional area of federal/provincial co-operative funding creates a significant void in the ability to finance regional economic development initiatives.

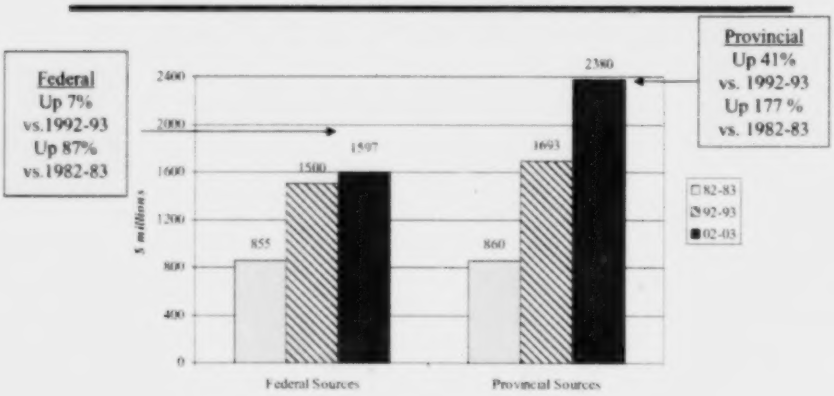
Revenue Trends

Gross revenues of the province totaled almost $4.0 billion in 2002-03; up 24.5 per cent from some $3.2 billion in 1992-93. The province's revenue profile is comprised of two components; provincial "own source" revenues, which accounted for 59.8 per cent in 2002-03 and federal transfers which amounted to 40.2 per cent of the total. This represents a significant change from the early 1980s when the revenue sources were almost evenly split at 50/50.
For the past several years the growth in federal transfers has lagged the rate of growth in provincial own source revenues as illustrated below:

Chart 1-5

Overall Revenue Trends

1982-83 – 1992-93 – 2002-03 Revised



Source: Government of Newfoundland and Labrador, Department of Finance Public Accounts and 2003 Budget & Annual Estimates

In the last 10 years alone, the growth in provincial source revenues has outpaced that of federal transfers by approximately 34 per cent.

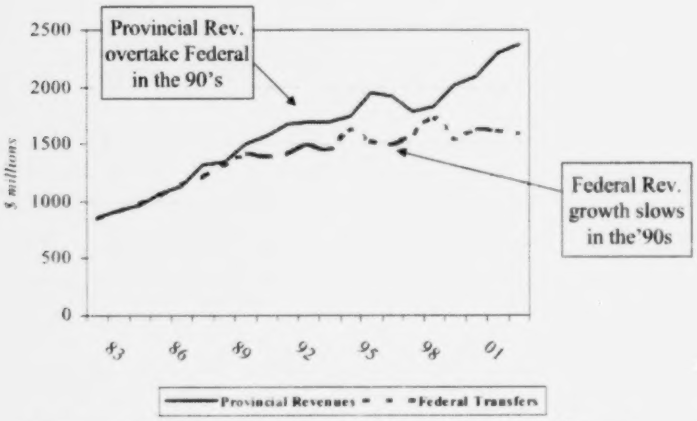
Chart 1-6 below illustrates more clearly, the differing trends in the growth from the two major revenue components.

Chart 1-6

Trends in Annual Revenues by Source

1982-83 to 2002-03

(year ended March 31)



Source: Government of Newfoundland and Labrador, Department of Finance Public Accounts and 2003 Budget & Annual Estimates

The rate of growth in the individual revenue components has varied significantly over the past 10 years. **Equalization**, which is the largest single component in the province's revenue base, increased by 29 per cent from $877 million in 1992-93 to the latest revised estimate of $1,132 million in 2002-03. Equalization constituted 27.5 per cent of the province's overall current and capital revenue base in 1992-93 and 25.9 per cent in 2002-03. It must be noted as well that the "equalization" payments in 2002-03 include over $200 million in offset payments under the Atlantic Accord, including payments in respect of the current year as well as prior year adjustments. (It is understood that a separate analysis of equalization has been prepared for the Commission.)

The Canada Health and Social Transfer **(CHST)** system of transfer payments to the provinces was introduced in 1996-97 to replace the previous federal funding arrangements under Established Programs Financing (EPF) and the Canada Assistance Plan (CAP). In 2002-03 CHST cash payments totaled $340 million, down more than 17 per cent from the combined cash payments of $411 million in 1992-93 under EPF and CAP. Clearly, the federal restraint on CHST payments has had a significant impact on the revenue growth from federal sources.

According to revised estimates, **equalization and CHST** combined, increased by 14.9 per cent as at March 31, 2003, compared with the combined entitlements received in 1992-93 under the predecessor arrangements. In the same period the province's gross annual revenues are estimated to have increased by 24.5 per cent as noted previously.

While there has been significant growth in individual revenue components (the most notable of which perhaps is provincial lottery revenues, which are up over $60 million, or 140 per cent in the last 10 years), the trends have varied significantly. From an overall perspective, analysis indicates that overall revenue growth in recent years has been dampened as a result of three key factors: i) provincial tax reductions; ii) population decline; and iii) CHST restraint:

i) Tax Reductions: The Move to HST and Income Tax Reductions

In 1997, government converted to the **Harmonized Sales Tax** in a policy move jointly with the Government of Canada and various other provinces. The provincial sales tax on consumer goods was effectively reduced from 12 per cent to eight per cent. As a result, 1997 provincial sales tax revenues were down $125.5 million or 22.3 per cent from the 1996 level (sales tax for the year totaled $436.3 million, down from $61.8 million). The initial impact was substantially offset by transitional grants from the Government of Canada.

The transitional grants, which totaled $349 million over four years, have been depleted since 2000-01 and the revenue base has been lowered. It is primarily for this reason that sales tax revenues increased only 10.1 per cent in 10 years – a period when per capita personal income increased by over 30 per cent. It is estimated that the net ongoing impact of the tax reduction on the tax base is in the order of $100 million to $120 million.

In addition, in 1999 government announced a three-phase program to **reduce personal income taxes** recognizing the general trends and the increasing tax competition. The first two phases were implemented in 2000 and 2001, and have an estimated annualized impact of $60 million to $80 million. The third phase of the reductions was deferred prior to the 2002 budget and remains deferred. (Other provinces have continued to proceed with tax reductions augmenting the competitive pressures.)

While these tax reductions help bring Newfoundland and Labrador's tax rates more in line with other provinces, and respond to the mounting competitive tax pressures, the combined dampening impact on the annual revenue base in the current economic environment is estimated in the order of $160 million to $200 million.

ii) Population Decline

The latest revised population estimates by the provincial Department of Finance indicate that Newfoundland and Labrador's population has declined by 61,000, or 10.5 per cent since 1992. In the 2003 budget, government indicated that the impact of the population decline on federal cash transfer payments for Equalization and CHST amounts to $140 million compared to the level that would have been paid had the population remained constant the past 10 years.

It should also be noted that, had the population remained constant, sales tax, personal income tax (PIT), and other consumer taxes such as the gasoline tax and tobacco tax would be higher today. It is difficult to estimate the out-migration impact on these revenue sources, however, an estimate based on collecting just 25 per cent of pro rata PIT and 50 per cent of pro rata revenues from other key **provincial tax sources** would indicate a further reduction in annual revenues of over $60 million.

Overall, therefore, it is estimated that the federal and provincial revenue base combined has been reduced by in excess of $200 million as a result of the population decline – which is primarily due to out-migration.

In addition, a further population decline of 16,000 or 3.1 per cent is projected over the next 10 years in the medium case forecast prepared by the provincial Department of Finance. This would lead to a similar dampening impact on future revenues.

iii) CHST Restraint

The federal government's expenditure restraint program has been felt by all provinces since the mid-1990s through the implementation of the CHST to replace previous funding arrangements (Established Program Financing – EPF and the Canada Assistance Plan – CAP).

The impact of the federal restraint on CHST has been a major source of contention between the Government of Canada and the provinces for the past several years. There has been an ongoing federal/provincial debate over the quantification of the size of the impact. The recent 2003 Budget of the province again reiterated this issue noting that:

> *... our federal cash transfers will be roughly the same in the coming year as they were in 1994-95, with the transfer in support of health expenditures actually $58 million lower.*[2]

Even after the Health Accord announced by the Government of Canada earlier in 2003, the provinces continue to emphasize the inadequacy of federal funding to meet the requirement in this area.

Natural Resource Taxes and Royalties are only now becoming a prominent feature of the province's revenue base. In 1992-93 this revenue source accounted for $17 million and by 2002-03 the budgeted revenues were just over $50 million – in a $4.0 billion budget. The province is on the threshold of an immense change in this area and this was evident as 2002-03 unfolded. With the increase in oil production and higher prices the revised estimate for 2002-03 came in at $88 million. The latest budget projects it will increase to $153 million in 2003-04 – a significant change from the 2002 budgeted level of $51 million.

In the future, the net benefits to be realized by Newfoundland and Labrador will be contingent upon a range of issues including: the level of oil production, prices and profitability, and the extent to which the corresponding decline in equalization is offset (by the protections in Atlantic Accord and the generic solution discussed in Chapter 3). In addition to the direct revenues, it is likely that ongoing development in this sector will be a key element supporting growth in other key provincial source revenues.

Appendix B provides a summary of the trend in the various components of the annual revenue base in recent years. Equalization historically has been the largest single revenue source for the province. It has now begun to decline and this decline is expected to become much more pronounced as the oil related revenues increase in the coming years. (The outlook for oil revenues and equalization are dealt with in some detail in the fiscal outlook in Chapter 3.)

"One-Time" – Non-Core Revenues

Since the mid-1990s, the overall revenue trends, and accordingly, the trend in the net budgetary position of the province have been bolstered by a number of "one-time" revenues. The 2002-03 budget projected $232 million in such non-core revenues.

In the province's fiscal history over the past 10 years, it was perhaps in the 1995 Budget speech that "one-time" revenues were first highlighted by the then-Minister of Finance. In that year one-time revenues in excess of $90 million were identified as being key to the province achieving a balanced budget for the first time in decades. The Minister at the time emphasized that balancing the budget should not be a "one-time event". He noted that major challenges remained to be addressed and the need for ongoing restraint if substantial budgetary shortfalls were to be avoided in the future.

In succeeding years, however, notwithstanding fiscal restraint measures, "one-time" revenues have continued to figure prominently in the province's budgetary position. In each of 1997-98 and 1998-99 they totaled $167 million and in 2001-02 they contributed a total of $217 million. Table 1-2 summarizes the budgetary impact since 1996-97 and includes the revised position for 2002-03 as well as the budget for 2003-04:

Table 1-2

"One-Time" – Non-Core Revenues
(1996-97 to 2003-04 Budget)

$ million

	96-97	97-98	98-99	99-00	00-01	01-02	02-03B	02-03R	03-04B
Term 29-Advance	50	40	40	-	-	-	-	-	-
HST Transition	-	127	127	63	32	-	-	-	-
CHST Supplements	-	-	-	35	69	-	-	-	42
Sinking Fund Recoveries	-	-	-	-	27	156	115	80	37
Hydro-Special Dividend	-	-	-	-	-	61	-		
Lab. Transportation Initiative – Trust Fund	-	-	-	-	-	-	97	-	-
NLHC/NLC Revenues	-	-	-	-	-	-	20	-	20
TOTAL	50	167	167	98	128	217	232	80	99

Source: Province of Newfoundland and Labrador Public Accounts and annual estimates.

One-time revenues of $232 million were budgeted in 2002-03. At the time that budget was prepared, it was expected that in the absence of such one-time revenues, the 2002 budget would have projected a deficit of $325 million. Fortunately, strong economic growth in 2002-03, along with various favourable revenue adjustments produced revenue growth beyond budgeted levels. Accordingly, government only drew upon $80 million of the planned one-time revenues in 2002-03, the balance was deferred to future years. A total of $99 million in one-time revenues is budgeted for 2003-04.

The nature of the one-time revenue sources has varied somewhat over the years, however, they all have one consistent characteristic – they are not sustainable as part of the ongoing annual revenue base. The most significant components in Table 1-4 are explained below:

i) **Term 29 Advance**

In the 1996 provincial budget, it was announced that the Government of Canada had agreed to an upfront advance on amounts payable under Term 29 of the Terms of Union with Canada. The amount appeared to be intended to cover the present value of the regular payments, $8 million per year, for the next 20 years. At the time, government explained that this arrangement enabled the province to avoid severe cuts in the health care sector in the 1996-97 fiscal year. The grants totaled $130 million and were paid out over three years ending in 1998-99. The regular Term 29 annual payments of $8 million per year, are to resume in 2016.

ii) HST Transitional Grant

The move to the Harmonized Sales Tax and the associated reduction in the retail sales tax from an effective rate of almost 20 per cent to 15 per cent had a significant impact on this major tax base. In recognition of the immediate reduction in revenues of approximately $125 million a year, the Government of Canada provided the transitional grants totaling $349 million. These grants were reflected commencing in 1997-98 and continued through the first four years the HST system was in effect. These transitional grants were fully utilized by the end of 2000-01.

iii) CHST – Supplements

In recognition of the significant challenges confronting the provinces in dealing with mounting health care costs, the Government of Canada provided special supplementary grants, on a non-recurring basis, which were spread over the 1999-00 and 2000-01 fiscal years. The 2003 Health Accord provided a total of $42 million in supplements in respect of 2003-04, 2004-05, and 2005-06. Provinces have the flexibility to draw down these funds as they require them. This province budgeted to draw down all $42 million in 2003-04. (Similar flexibility was provided under the new Health Accord with respect to the province's $25 million entitlement for diagnostic and medical equipment. The 2003 Budget indicates that these funds will all be drawn down in 2003-04 to finance new MRI equipment. Since this is a one-time revenue used to finance a one-time expenditure, it has not been reflected in Table 1-4.)

iv) Sinking Fund Recoveries

Regular contributions to sinking funds are made annually to retire certain components of the province's long-term debt. Over time these funds have generated earnings beyond the level required to retire the associated debt. In this regard, significant surpluses had accumulated over the years and in the late 1990s government began budgeting to recover a portion of the surplus to augment regular revenues and reduce the deficit.

Government has treated these funds as "flexible" revenues and actually deferred a portion of the budgeted recoveries at year-end in 2000, 2001 and 2002 in order to "smooth" the fiscal results. Government recovered $156 million in 2001-02 which significantly reduced the deficit in that year. In 2002-03, government budgeted to recover the entire balance of $115 million but only actually drew down $80 million. The balance was deferred. It now totals $37 million and is budgeted to augment revenues for the 2003-04 fiscal year.

v) Newfoundland and Labrador Hydro – Special Dividend

The province received its first dividend from Hydro in 1995-96 and at that time the Minister referred to it as a one-time revenue. However, since then it has become regular practice to budget for dividends from Hydro recently in the order of $50 million to $70 million. In many respects these ongoing dividends might now be considered part of core revenues.

In 2001-02 Hydro paid a special dividend to the province of $61 million, over and above the regular dividend. There is no basis to expect ongoing special dividends of this nature.

It should be noted also that the amount of the cash dividend received in a given year has not necessarily corresponded to the budgeted amount. As with sinking fund recoveries, Government has periodically deferred the receipt of these cash dividends to smooth its budgetary results.

In the last three years Hydro's dividends to the province, including the special dividend, have totaled approximately $250 million.

vi) Labrador Transportation Initiative Trust Fund

In the spring of 1997 the province signed an agreement with the Government of Canada whereby the federal government provided funding of $350 million in return for the province taking over responsibility for the Coastal Labrador Ferry Service. To the end of 2001-02, a total of $253 million had been expended from the fund. In 2002-03, the remaining balance in the fund of $97 million was budgeted to be transferred into the consolidated revenue fund and incorporated as part of the provincial revenue stream for the year. At year-end, 2002-03, government cancelled its plans to transfer these funds to provincial revenues and left the Trust Fund to be drawn down in the normal course.

vii) NLHC/NLC

For the past three years, and again in 2003, Government budgeted a recovery of $10 million from Newfoundland and Labrador Housing. To date it has deferred the recovery and treated it as a flexible revenue available to adjust the deficit. If and when it does recover this amount, it will be a one-time revenue. Similarly, it has budgeted for a one-time revenue recovery of $10 million from the Newfoundland Liquor Corporation.

In the several years up to and including the budget for 2003-04, the one-time revenues from a range of different sources have totaled in excess of $1 billion – with $99 million budgeted for the current fiscal year.

Financial Obligations – Beyond the Reported Budgetary Position

A further dimension of the province's fiscal position relates to the additional financial obligations of the province in respect of hospitals and school boards which had not been reflected in the provincial budget up to 2003.[3]

The Government of Newfoundland and Labrador is the principal funding source for the province's **hospital boards and school boards**. Periodically, the expenditures of these agencies exceed the funding provided by government in the regular budgetary process and deficits are incurred – despite considerable efforts on the part of government to encourage, or even demand, that these boards balance their books. For the most part, such deficits ultimately become financial obligations of the province which must be funded through the budgetary process. The recent operating deficits in that regard are summarized in Table 1-3:

Table 1-3

HEALTH AND SCHOOL BOARDS OPERATING DEFICITS For Fiscal Years Ended March 31

($ millions)

	2000	2001	2002
Operating Deficit *			
Hospital Boards	33.6	60.1	16.5
Health & Community Services Boards	4.6	11.6	3.1
School Boards	2.9	1.6	1.9
	41.1	73.3	21.5

* Net Deficit after non-sharable expenses

Source: Data extracted from the Report of the Auditor General for the Province of Newfoundland and Labrador for the year ended March 31, 2002.

Clearly, the most significant shortfalls have been in the health sector. Considerable efforts are underway by both the boards and government to eradicate these deficits, and important progress has been made.

In previous years, these obligations have not been reflected in the reported budgetary position on a regular basis. Notwithstanding arguments over accounting treatment, deficits of this nature have over the years eventually been funded by the province. It is reasonable, therefore, that they should be added to the deficit to reflect the overall position more completely.

While considerable progress has been made in addressing these deficits, it is not clear that they have yet been eradicated. However, on a go forward basis it has been assumed that the province and the hospital boards will be successful in eliminating these deficits and there will not be an incremental obligation.

In addition to government's obligations arising out of the board operating deficits outlined above, significant capital investments (approximately $30 million a year recently) related to **school construction** had not been reflected in the budget. These capital projects are funded through the Newfoundland and Labrador Education Investment Corporation.

Similarly, significant financial commitments in relation to "The Rooms" heritage project and the Newfoundland and Labrador Municipal Financing Corporation (NMFC) had not been reflected in the budget. The 2003 Budget represents a significant step forward in improving the budgetary reporting and disclosure in this regard. Borrowing requirements for these entities are summarized in Table 1-4.

Table 1-4

Borrowing Requirements
"Other Entities"
For the Fiscal year Ended March 31

	2002-03	2003-04
Newfoundland and Labrador Education Investment Corporation (School Construction)	31.8	30.5
Newfoundland and Labrador Heritage Corporation ("The Rooms")	17.6	13.0
NMFC	28.0	27.0
Other	4.1	3.4
	81.5	73.9

The budget explained that these requirements brought the consolidated budgetary deficit for 2003-04 up to $286.6 million compared with a revised deficit of $143.2 million in 2002-03 on the same basis (compared with the deficits of $212.7 million and $61.7 million respectively under the previous reporting method).

Budget Smoothing

The assessment of the underlying budgetary trends has been complicated in recent years by the budget smoothing technique government has employed and which merits a brief explanation.

During the course of each year, revenue forecasts and entitlements are revised periodically based on the receipt of updated economic data as well as revised projections from the Government of Canada. These adjustments can frequently be quite substantial (for both the current year and prior years), particularly in relation to major revenue components such as: equalization, CHST, sales tax, personal income tax and corporate income tax. The smoothing has occurred when, upon receipt of favourable news of revenue adjustments, government has deferred the receipt of other budgeted revenues. The Minister of Finance has explained the approach as follows:

> *The strategy we have utilized for several years in managing public finances is to shift revenues from high surpluses to years where we would otherwise have excessively high deficits. This smoothing of the peaks and valleys of our fiscal position has been a significant factor in creating the stability the province has enjoyed over the past five years.*[4]

The fiscal smoothing adjustments in recent years have been substantial and have in some cases included the prepaying of expenses as well as deferring revenues. Revenue smoothing adjustments in recent years are summarized below:

Table 1-5

Revenue Smoothing Adjustments[5]
Budgeted Revenue Deferred at Fiscal Year End

($ millions)

	96-97	97-98	98-99	99-00	00-01	01-02	02-03
Revenues Deferred:							
Hydro Dividends	15	30	52	76	68	7	-
Loan Guarantee Fees	8	8	-	8	8	-	-
Sinking Fund Recoveries	-	-	-	26	89	29	37
NLHC/GIPco Recoveries	-	-	-	13	12	13	10
NLC Recovery	-	-	-	-	10	10	10
Labrador Transportation Initiative Trust	-	-	-	-	-	-	97*
Total Deferred Revenues	23	38	52	123	187	59	154

*Government decided not to proceed with this transfer.

Source: Department of Finance annual estimates of revenue and expenditure and reports of the Auditor General of Newfoundland and Labrador and Budget 2003.

The 2000-01 fiscal year was the year of highest adjustments. Revised revenue projections late in the year provided favourable adjustments in excess of $200 million (mostly related to equalization and personal income tax). Had government taken no offsetting action, but recorded the favourable revenue adjustments and collected all of its other budgeted revenues, it would have recorded a surplus in the order of $160 million in 2000-01, after accommodating increased expenditures. Instead, government deferred receipt of revenues totaling approximately $190 million and brought net budgetary deficit for the year back to just slightly better than the budgeted deficit level of $35 million. The revenues deferred from 2000-01 were then budgeted for receipt in 2001-02 to help address the budgetary gap for that year.

Budget 2003 provided for similar adjustments at the 2002-03 year end. Revenues from provincial sources were up $176.9 million from the budgeted level. This, along with a number of other variances would have "transformed a $93.3 million budgeted deficit into a $94.4 million surplus". However, government decided not to withdraw $97 million from the Labrador Transportation Initiative Trust Fund, to defer one-time revenues of $57 million to 2003-04, and to contribute $2.1 million to the Memorial University Opportunity Fund. This eliminated the potential surplus and produced the reported "cash" deficit of $61.7 million.

Auditors General have repeatedly expressed concern over this practice of deferring revenues and recoveries, and prepaying expenses to smooth the financial results.

> *Specifically we are concerned about the way government can "adjust" its actual cash surplus or cash deficit through government decisions about which revenues or expenditures to include and when to include them. These concerns are not new and my office has reported on this in each of the past three years.*[6]

The "Fiscal Stabilization Fund" Approach

Wide, unpredictable and, in some respects, uncontrollable swings in revenue estimates present a challenging dimension to budgetary planning at the provincial government level. This challenge is not unique to Newfoundland and Labrador and other provinces also struggle with the potential fiscal volatility related to unexpected revenue revisions.

At least three provinces (New Brunswick, Manitoba and Saskatchewan) have established Fiscal Stabilization Funds (FSF) which provide some recourse to manage the swings. Unexpected revenues or windfall gains are collected, reported and allocated to the FSF when they arise. Then, as required, the fund is drawn down to facilitate budgetary balance. The bottom line effect may be the same as the smoothing technique but, the approach is clear and the reporting is more transparent. A reader of the financial results can clearly see the surplus or deficit, as well as the changes to the Stabilization Fund. The balance of the Fund and the movement up or down in a given year is clearly reported, as is the fiscal position after any changes in the fund.

Some other provinces employ variations of the budget smoothing practice. Manitoba used a mixture in its 2002 budget by drawing down its FSF as well as a special dividend from Manitoba Hydro. The Province of Quebec also drew down a $750 million reserve account to address its budgetary position in 2002. In its 2003 Budget, Alberta established a "Sustainability Fund" to smooth the effects of wide swings in resource revenues.

The revenue smoothing approach used by the province has raised questions from time to time as to the size of the "real deficit". These questions are compounded by the fact that: Newfoundland and Labrador is the only remaining province on a modified cash basis of accounting for reporting its budgetary position. All other provinces have moved to a form of accrual accounting. While the province has begun to address the issue in the 2003 budget, the matter is worthy of a brief explanation.

"Inconsistent Reporting" – Budget vs Public Accounts

Prior to the 2003 Budget the Government of Newfoundland and Labrador prepared its budget solely on a modified "cash basis" of accounting. However, the province prepares its Public Accounts and Consolidated Summary Financial Statements using an "accrual" method of accounting. While it is not intended to divert the attention of the Royal Commission to a technical debate on the relative merits of different accounting policies, it is important that the Commission have an appreciation for the type of confusion which has been created by using two reporting practices.

This issue has been repeatedly highlighted by the Auditor General:

> … the budgeting practices of government are significantly inconsistent with its financial reporting practices.
>
> *The inconsistent reporting has resulted in much confusion and debate in the past as to what was government's "real" deficit or surplus in a particular year. The inconsistencies occur because of two things – first, the budget is prepared on a cash basis and therefore does not include significant accounting adjustments which are reflected in the Consolidated Summary Financial Statements and second, the budget does not include all government entities which are included in the Consolidated Summary Financial Statements.*[7]

The Auditor General explained that the Consolidated Summary Financial Statements are prepared by government in compliance with generally accepted accounting principles for governments and "are regarded as its primary financial report". While that may be so in the technical sense, in a practical sense, the annual budget and ongoing budgetary updates often have a higher public profile.

The fiscal picture is quite different depending on the report which one chooses to consider as illustrated in Table 1-6:

Table 1-6

(Deficit)/Surplus of Newfoundland and Labrador
Budget Reporting vs. Public Accounts Reporting
1998-99 to 2003-04 Budget

($ million)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04B *
Budget Reports	3.8	(22.9)	(26.1)	(47.3)	(61.7)	(212.7)
Public Accounts	(187.1)	(269.0)	(349.7)	(473.1)	N/A	(666.0)

* The budgeted deficit of $212.7 million reflects the position on a basis comparable to the budgetary reporting practice of prior years.

Source: Department of Finance, Province of Newfoundland and Labrador, Public Accounts and Annual Estimates.

The huge differences in the deficits reported by government under the two different approaches underlines the basis for fiscal confusion. It must be emphasized that government does provide a reconciliation of the difference between the two reports in the Public Accounts. **In addition, for the first time ever, the 2003 budget contains a schedule which summarizes the budgetary position on the basis of full accrual accounting for comparison purposes.**

The 2003 budgetary deficit of $212.7 million, on its long-standing "cash" based budgetary reporting format, is reconciled to the full accrual deficit of $666 million by outlining the major adjustments. The most significant differences relate to: i) net pension costs ($301.9 million); ii) net expenses of various crown entities ($98.0 million); and iii) amortization of foreign exchange losses ($31.5 million). There are also a number of adjustments related to the treatment of capital assets which are effectively offsetting.

In addition, the 2003 Budget outlines a consolidated budgetary deficit of $286 million, which is the cash deficit plus the borrowing requirements of various crown entities as outlined previously. In short, the budget does appear to make a sincere effort to improve the disclosure but in so doing, with three different deficit numbers, it may have added to the confusion.

The additional reporting in the 2003 Budget is an indication of progress in that it articulates the differences and attempts to reconcile them. However, Government would be well advised to move away from using three deficit numbers. Government should be updating its overall approach to budgetary reporting to bring it in line with generally accepted accounting practices and more in line with other provinces. The focus should be on the avoidance of confusion with a single reporting format which provides full, clear and consistent disclosure of the province's fiscal position.

New standards and reporting practices continue to evolve in this area. In January 2003, the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants issued a New Reporting Model for senior governments following 10 years of work and consultation.

The new approach is intended to expand focus and the measurement of governments financial performance to five key indicators – a significant advancement beyond a narrow focus on annual surplus or deficit. The new model focuses on: i) governments' net debt position; ii) accumulated surplus/deficit position; iii) the annual surplus/deficit; iv) the change in net debt in the year; and v) cash flows in the year.

The new standards are effective for all years beginning on or after April 1, 2005. Some governments have indicated they will be implementing them earlier. *As the Government of Newfoundland and Labrador moves to modify its reporting practices, it should be encouraged to become proactive in updating its budgetary and financial reporting beyond the minimum requirements and be among the most progressive provinces in this area.*

Provincial Debt Trends

The review of the provincial debt trends begins with an examination of **total public sector** debt, as reported by the province, which encompasses the debt of crown agencies as well as government's direct debt obligations. In addition, inter-provincial debt comparisons are provided on the basis of **"taxpayer supported debt"** (a concept used by financial analysts and credit rating agencies) which is intended to exclude debt of self-sustaining provincial crown agencies, which vary significantly from province to province, (particularly the provincial hydroelectric corporations).

The review also addresses the unfunded pension liability and endeavors to place it in perspective with the funded debt. It then compares the combined obligations with those of the other provinces.

Total Public Sector Debt

The unfortunate legacy of 50 years of budgetary shortfalls is the accumulation of a large provincial debt burden. As of March 31, 2003, the direct debt of the Government of Newfoundland and Labrador totaled $5.9 billion, crown corporation and other public sector debt (including Newfoundland and Labrador Hydro, Newfoundland Municipal Financing Corporation, and Newfoundland and Labrador Housing Corporation) amounted to $2.0 billion, yielding a total public sector debt of $7.9 billion.

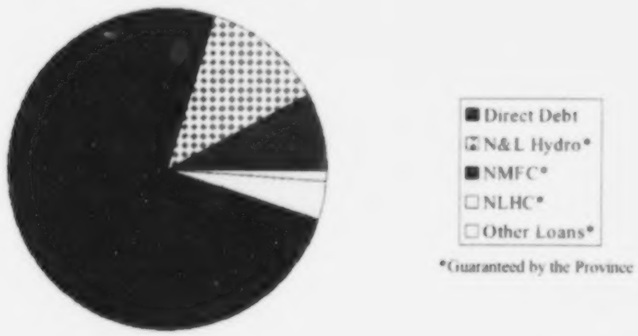
Chart 1-7

Total Public Sector Debt

Major Components as at March 31, 2003

(total net of sinking funds)

$7.9 billion

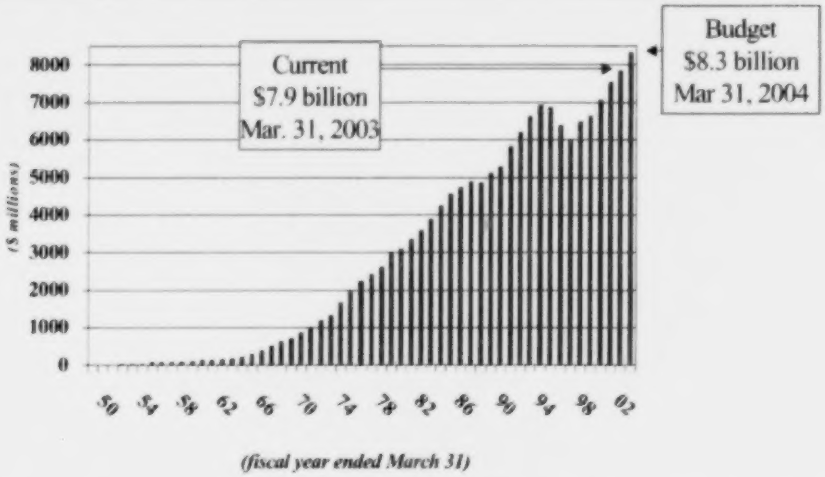


Source: Department of Finance, Province of Newfoundland and Labrador, Budget 2003 revised estimates for the year ended March 31, 2003

Chart 1-8

Total Public Sector Debt

1949-50 to 2003-04 Budget



Source: Government of Newfoundland & Labrador, Department of Finance: Public Accounts 1949-50 to 2001-02 and Budget 2003.

The historic debt trend of the province indicates a record of continually mounting indebtedness which advanced from an accumulated cash surplus in the order of $40 million at the time of Confederation, to $100 million in debt by the early 1960s. By 1970, the debt had increased to some $700 million and then to $3 billion by 1980. In the succeeding two decades, the public sector debt of Newfoundland and Labrador more than doubled to its current level of $7.9 billion.

There was a brief dip in the debt trend in the late 1990s related to the large transitional payment for sales tax harmonization ($350 million) received from the Government of Canada which also coincided with the impact of favourable foreign exchange rates on foreign denominated debt as well as relatively good budgetary performance. This was a temporary situation. The ongoing debt trend quickly returned as the lower sales tax receipts exhausted the prepaid revenues.

In the four-year period ending March 31, 2003 total provincial public sector debt in Newfoundland and Labrador increased by $1.4 billion, or 21.5 per cent. In some respects, the escalation in public sector debt at an average of $350 million a year over the past four years provides a clearer indication of the province's fiscal trends than the different measures of the budgetary deficit outlined previously. The definite trend toward increasing public sector debt continues and it is budgeted to increase by some $450 million in the coming year to $8.3 billion by the end of 2003-04 fiscal year.

While clearly the chart reflects a rapid escalation, a comparative analysis is required to put the position in perspective.

Comparative Debt Position – "Taxpayer - Supported Debt"

"Taxpayer-supported debt" is a frequently used concept for comparison purposes and it excludes the hydro debt as noted previously. In Newfoundland and Labrador, this measure of debt totaled $6.6 billion as of March 31, 2002 and it was projected to increase to $6.9 billion by March 31, 2003 (according to calculations by DBRS, a Canadian-based credit rating agency). A comparison of the total debt levels of the various provinces showing the increase (based on the 2002-03 budgets) since 1992-93 is provided in Table 1-7:

Table 1-7

Taxpayer-Supported Debt
Provincial Comparison
2002-03 budget vs. 1992-93
($ millions)

Province	2002-03 budget	1992-93	Increase per cent
British Columbia	34,190	16,640	105.5
Alberta	--	18,220	(100.0)
Saskatchewan	8,410	10,380	(19.0)
Manitoba	9,620	9,000	6.9
Ontario	118,580	72,440	63.7
Quebec	98,710	60,350	63.6
New Brunswick	6,570	4,590	43.1
Nova Scotia	11,880	7,600	56.3
Prince Edward Island	1,080	700	54.3
Newfoundland & Labrador	6,930	5,100	35.9

Source: Data extracted from "The Canadian Federal and Provincial Governments – 2002 Overview" by DBRS (Dominion Bond Rating Service Limited) January 2003 and similar report by DBRS dated November 2001, and calculations by the author.

While Alberta and Saskatchewan have recorded reductions in debt from the 1992-93 level, Newfoundland and Labrador's increase of 35.9 per cent was the second lowest increase of the other seven provinces. British Columbia recorded the largest increase at 105.5 per cent. However, Newfoundland and Labrador was advancing from a relatively high base. Given the varying sizes of the provincial economies (and Ontario's debt load of $119 billion), "per capita debt" is a far more relevant basis of comparison than total debt outstanding.

Per Capita Debt Comparison

Provincial per capita debt has increased in all provinces, except Saskatchewan and Alberta since 1992-93 as outlined in Table 1-8:

Table 1-8

Taxpayer-Supported Debt – Per Capita
Provincial Comparison
2002-03 budget vs. 1992-93
($ millions)

Province	2002-03 budget	1992-93	Increase per cent
British Columbia	8,256	4,657	77.3
Alberta	--	6,820	(100.0)
Saskatchewan	8,396	10,308	(18.5)
Manitoba	8,364	8,047	3.9
Ontario	9,826	6,777	45.0
Quebec	13,240	8,423	57.2
New Brunswick	8,679	6,119	41.8
Nova Scotia	12,576	8,225	52.9
Prince Edward Island	7,729	5,280	46.4
Newfoundland & Labrador	13,026	8,798	48.1

Source: Data extracted from "The Canadian Federal and Provincial Governments – 2002 Overview by DBRS", January 2003 and November, 2001, Statistics Canada population statistics, and calculations by author.

While the most pronounced increase has occurred in B.C. with a 77.3 per cent growth, Quebec's per capita debt of $13,240 represents an increase of 57.2 per cent and places it at the highest level of taxpayer supported debt among the provinces. Newfoundland and Labrador is second highest with $13,026 per capita, an increase of 48.1 per cent.

Analysis of these numbers highlights the impact of population changes on per capita debt levels in Newfoundland and Labrador. In Table 1-7 the overall absolute increase in debt was 35.9 per cent, but, because of the population decline in the same period, the per capita debt in Table 1-8 actually increased by 48.1 per cent. (It must be noted that the numbers are based on the Statistics Canada population estimates as of July 2002. Should the numbers for Newfoundland and Labrador be revised downward as expected, the per capita burden would increase accordingly.)

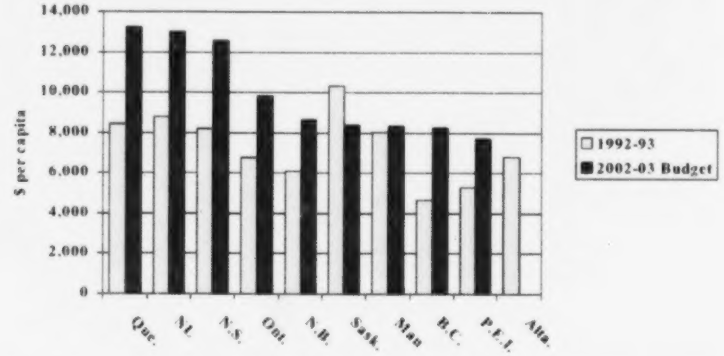
The opposite population impact is reflected in Ontario where the debt increased by 63.7 per cent but, since the population increased by 12.9 per cent, on a per capita basis, the increase in debt was only 45.0 per cent.

The relative ranking of the provinces as budgeted for March 31, 2003 is more clearly illustrated in Chart 1-9:

Chart 1-9

Taxpayer Supported Debt – Per Capita

Provincial Comparison



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments – 2002 Overview, dated November 2001 and January 2003. Base data extracted from source and extrapolated as required by author (based on unadjusted population data for Newfoundland and Labrador at 532,000 July 2002).

As noted previously, Newfoundland and Labrador has the second highest per capita debt, marginally behind Quebec. This province's taxpayer-supported debt per capita is projected to be 39.2 per cent above the all-province average as at March 31, 2003.

Debt to GDP Comparison

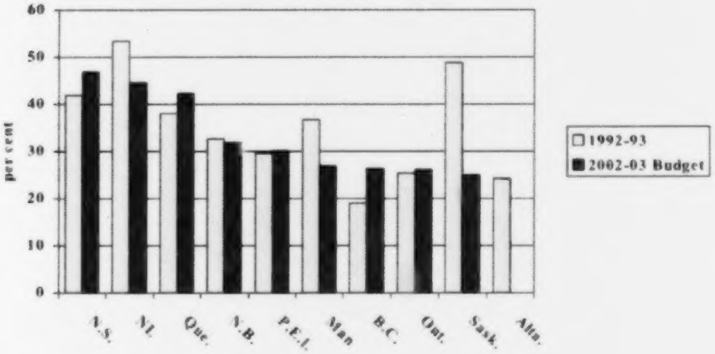
The taxpayer-supported debt to gross domestic product (GDP) ratio adds an important perspective to the increasing debt burdens relative to the size and economic growth trends of the Canadian provinces. A declining ratio is regarded as an important indicator of improving fiscal and economic strength.

In the last 10 years Newfoundland has recorded a significant improvement in this ratio, fueled in particular by the substantial impact of offshore oil development and production on the province's GDP. Taxpayer supported debt to GDP has improved from 53.4 per cent in 1992-93 to a projected 44.6 per cent in 2002-03.

Chart 1-10

Taxpayer-Supported Debt to GDP Ratio

Provincial Comparison



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial governments, dated November 2001 and January 2003. Base data extracted from source and extrapolated as required by author.

Despite the significant progress in Newfoundland and Labrador, this province ranks second last among the provinces. Nova Scotia ranks tenth with a ratio of 47 per cent, a much less favourable ratio than the 42 per cent it recorded in 1992-93.

This analysis does not reveal the entire provincial debt picture. In addition to the funded debt of the provinces, there is another significant dimension of the debt profile –"Unfunded Pension Liabilities".

Unfunded Pension Liabilities

Newfoundland and Labrador has total unfunded pension liabilities estimated at approximately $3.4 billion as at March 31, 2002 which are fully reflected in the public accounts of the province.

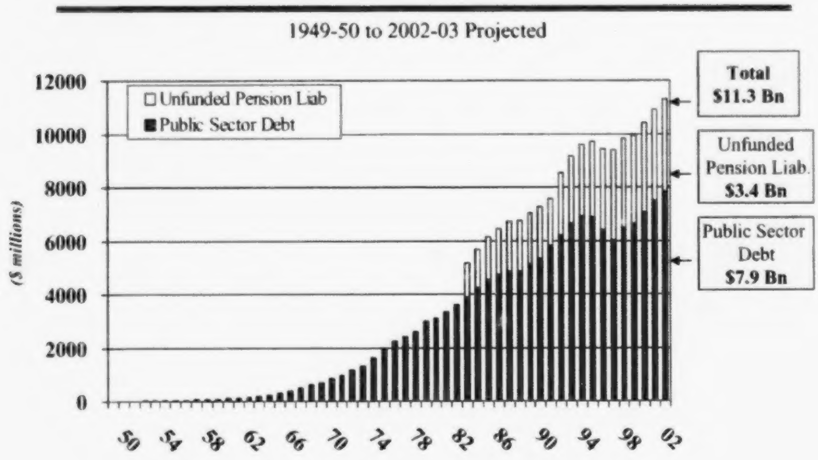
Data is not yet available for the unfunded pension liability as of March 31, 2003. However, if it remained relatively unchanged at $3.4 billion, the combined debt, including public sector debt of $7.9 billion at March 31, 2003, would now total $11.3 billion.

The overall trend in these total public sector liabilities is reflected in Chart 1-11:

Chart 1-11

Total Public Sector Liabilities

Public Sector Debt + Unfunded Liabilities



Source: Government of Newfoundland & Labrador, Department of Finance, Public Accounts 1949-50 to 2001-02 and Budget 2003.
Note: Data unavailable for unfunded pension liabilities prior to 1984.

It is quite possible that in due course updated actuarial reports reflective of recent market trends, plan changes and wage movements will place the current unfunded liability and, accordingly the combined debt levels, higher than reflected in Chart 1-11.

These pension obligations constitute a major dimension of the provincial debt profile. While the province has initialed a number of actions to address pension funding in recent years, the ongoing challenge remains significant. (Appendix C provides additional background information on the nature of the pension liabilities and how they have evolved over the years.)

Provincial Comparisons – Unfunded Pension Liabilities

There is a wide variation in the pension funding status among the provinces; B.C. is fully funded; there are relatively small deficiencies in the Maritimes, and Quebec has a $37 billion deficiency.

Table 1-9

Unfunded Pension Liabilities

Provincial Comparison 2002-03 projected vs. 1992-93
($ millions)

Province	2002-03 projected	1992-93	Increase per cent
British Columbia	0	3,340	(100.0)
Alberta	4,830	4,770	1.3
Saskatchewan	4,030	3,030	33.0
Manitoba	3,190	1,620	96.9
Ontario	1,960	9,590	(79.6)
Quebec	37,220	29,550	26.0
New Brunswick	320	1,660	(80.7)
Nova Scotia	940	620	51.6
Prince Edward Island	240	340	(29.4)
Newfoundland & Labrador	3,440	2,360	45.8

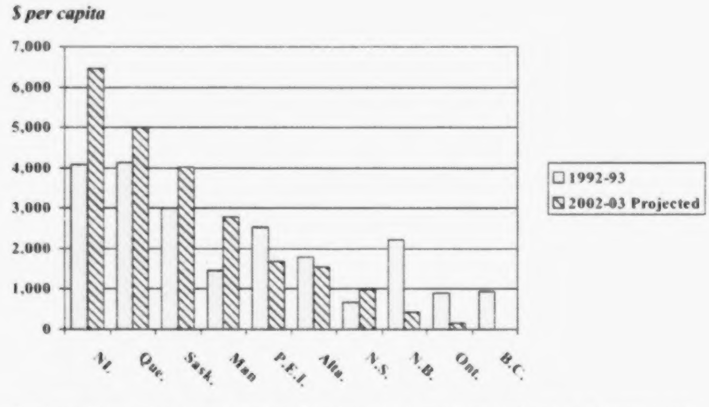
Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments, dated November 2001 and January 2003.

As with the level of taxpayer-supported debt outstanding, the absolute numbers above do not tell the full story given the different size in the population base of the various provinces. The picture becomes much clearer when the unfunded liabilities are examined on a per capita basis as illustrated in Chart 1-12:

Chart 1-12

Unfunded Pension Liability – Per Capita

Provincial Comparison 1992-93 vs. 2002-03 Projected



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments, dated November 2001 & January 2003. Data extracted from source and extrapolated as required by author (based on unadjusted population data for Newfoundland and Labrador at 532,000 July 2002).

As of March 31, 2003, the projected unfunded pension obligations of Newfoundland and Labrador, at $6470 per capita were the highest of any province. The liabilities were almost 30 per cent higher than Quebec's $4,990 per capita. Newfoundland and Labrador also stands out in stark contrast to the position of the other Atlantic provinces. Nova Scotia, for example, which has the highest taxpayer-supported debt to GDP ratio of any province, has an unfunded pension liability of only $990 per capita, and New Brunswick's unfunded liability is even lower at $430 per capita.

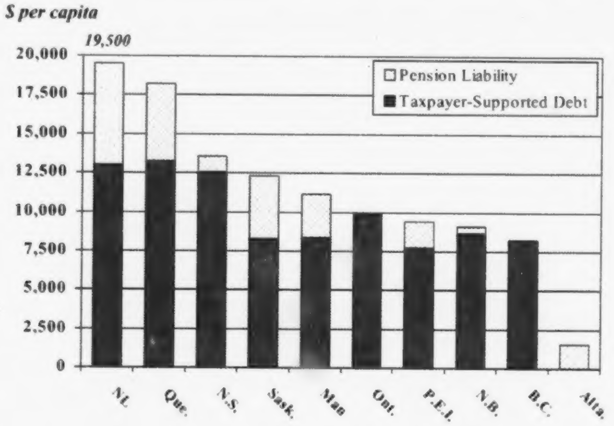
Combined Debt Obligations

The most comprehensive picture of Newfoundland and Labrador's overall debt position relative to the other provinces is portrayed in a comparison of the combined per capita taxpayer-supported debt and unfunded pension liabilities as depicted in Chart 1-13:

Chart 1-13

TS Debt + Pension Liability – Per Capita

Provincial Comparison 2002-03 projected



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments, dated January 2003. Data extracted from source and extrapolated as required by author (based on unadjusted population data for Newfoundland and Labrador at 532,000 July 2002).

Newfoundland and Labrador has the heaviest combined debt burden at $19,500 per capita while Quebec ranks second at $18,200. It is significant to note that while Nova Scotia's taxpayer-supported debt per capita exceeds that of Newfoundland and Labrador, its relatively low unfunded pension liability yields combined debt per capita which is 30 per cent below Newfoundland and Labrador:

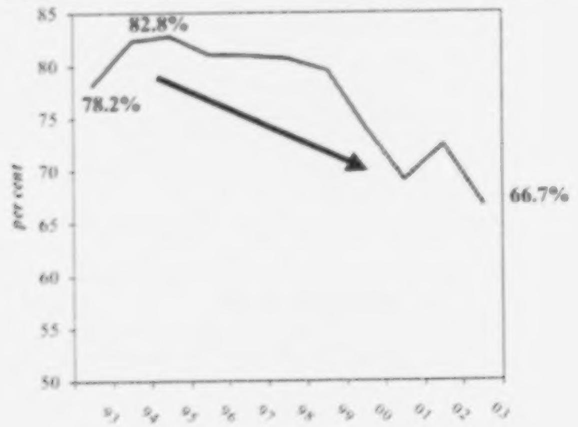
Combined Debt to GDP

The combined total of taxpayer-supported debt plus unfunded pension liabilities, "combined debt", is the basis for much of the analysis done by one of Canada's major credit rating agency, Dominion Bond Rating Service Limited (DBRS). By this measure, Newfoundland and Labrador's combined debt to GDP ratio increased from 78.2 per cent in 1992-93 to 82.8 per cent by 1994-95, and then declined to a projected level of 66.7 per cent by March 31, 2003:

Chart 1-14

Combined Debt to GDP Ratio

(fiscal years ended March 31)



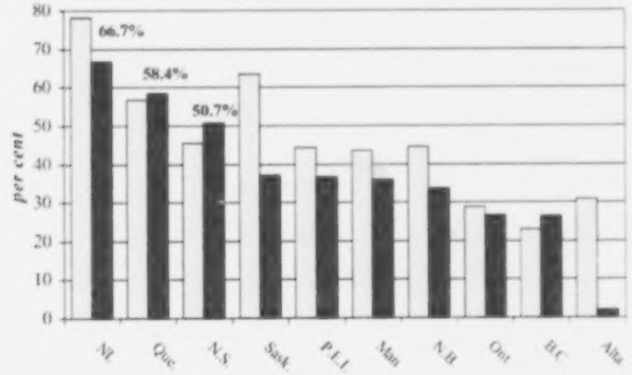
Source: Dominion Bond Rating Service, the Canadian Federal and Provincial governments, dated November 2001 and January 2003. Data extracted from source and extrapolated as required by the author.

Strong GDP growth in recent years, has more than offset the impact of increased debt on this ratio calculation. This favourable trend in the debt to GDP ratio is viewed very positively by the financial community and the credit rating agencies. The trend in the ratio in Newfoundland and Labrador is compared with the trend in other provinces in Chart 1-16:

Chart 1-15

Combined Debt + Pension Liability to GDP

Provincial Comparison: 1992-93 vs. 2002-03 projected



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial governments, dated November 2001,and January 2003.

Notwithstanding the significant improvement in this key indicator of overall debt burden, at 66.7 per cent, Newfoundland and Labrador continues to hold the most unfavourable ratio of any Canadian province.

Federal Debt Trends[8]

The trend in the debt of the Government of Canada, as analyzed by DBRS is projecting net federal debt of $532.5 billion at the end of 2002-03, which is up 14.2 per cent from $466.2 billion in 1992-93. In that period, however, the total federal debt ran up to a high of $583.2 billion in 1996-97. The most significant recent trend, therefore, is the decline of 8.7 per cent in federal net debt in the last six years made possible by the successive budgetary surpluses recorded by the federal government. This contrasts with the 22.6 per cent increase in the combined debt of the Province of Newfoundland and Labrador in the same six-year period.

On a per capita basis, the federal net debt per capita amounted to $16,430 in 1992-93. It increased to $19,650 by 1996-97 and has since declined by 13.8 per cent to a projected level of $16,950 at the end of 2002-03. Newfoundland and Labrador's combined debt per capita is higher at a projected level of $19,500.

The Government of Canada has also recorded a strong improvement in the key debt to GDP ratio in the last six years decreasing from 69.7 per cent in 1996-97 to a projected ratio of 46.6 per cent in 2002-03. This compares with this province's improvement from 80.9 per cent to 66.7 per cent in the same six-year period.

Foreign Exchange Exposure on Government Debt

In addition to the relative size of the outstanding debt, unhedged foreign currency exposure can add an element of risk to the overall debt burden. The decline in the value of the Canadian dollar relative to the United States dollar and other key international currencies in recent years, generated increased focus on the financial risks associated with non-Canadian dollar denominated debt.

While the proportion of this province's tax-supported debt denominated in foreign currencies exceeded 40 per cent in the early '90's, by 1999 it was down to 34.5 per cent and then to 27.6 per cent by March 2002. Most provinces have also reduced their foreign currency exposure in recent years as illustrated below:

Table 1-10

Percentage of Debt in Foreign Currency
Tax Supported Debt as at March 31

	2002 per cent	1999 per cent
Newfoundland & Labrador	27.6	34.5
Nova Scotia	25.4	48.8
Quebec	23.5	32.9
New Brunswick	19.0	22.4
Saskatchewan	15.2	17.9
Manitoba	5.9	22.0
British Columbia	5.6	6.8
Ontario	1.7	3.2
P.E.I.	0.0	0.0
Alberta	N/A	N/A
All Provinces	11.6	17.0
Federal Government	6.1	7.8

Source: DBRS, The Canadian, Federal and Provincial Governments – November 2001 and January 2003.

The vast majority of this province's foreign debt is payable in U.S. dollars, with a relatively minor balance in Swiss francs. Government is cognizant of the increasing currency exposure and in fact it has not borrowed in the U.S. capital markets since 1993.

The relative proportion of foreign debt in Newfoundland and Labrador's debt profile is declining but at 27.6 per cent, the exposure to currency fluctuations is regarded as significant. The provincial public accounts indicate that at March 31, 2002, the province had accumulated unamortized foreign exchange losses totaling $289 million. The foreign exchange sensitivity is also outlined in the Public Accounts – a one cent change in the foreign exchange rates at March 31, 2002 would result in an increase/decrease in foreign borrowings of $14.5 million. From an accounting perspective, an expense of $25 million was recorded in 2001-02 as "amortization of foreign exchange losses" in the public accounts. (While the numbers are not available for 2002-03, the 2003 budget projects amortization of $31.5 million for 2003-04.)

In its most recent rating assessment, Moody's Investor Sources noted that the foreign currency component of total public sector debt had declined "but is still substantial". They noted as well the partial hedge provided by the province's U.S. sinking funds.

With the increased volatility of exchange rates, this issue has gained prominence in recent years. Governments are being encouraged to: i) refrain from borrowing in foreign currencies; ii) consider hedging strategies for existing exposures; and iii) to amortize the mounting foreign exchange losses over the remaining life of the associated long-term debt. The recent strengthening of the Canadian dollar may well present government with an important opportunity to reduce or further hedge against its currency exposure.

At this point the Province appears to be moving in the right direction on this issue. The foreign debt is not coming down as quickly as in some other provinces because this Province tends to have a higher proportion of long-term debt and therefore "roll-overs" to Canadian currency do not occur as quickly.

Credit Rating Assessments

Regular credit rating assessments by the major credit rating agencies provide an objective perspective on both the debt profile, the fiscal performance and the general credit worthiness of the province on an ongoing basis.

There are three major credit rating agencies that rank the credit of the Province of Newfoundland and Labrador, as well as the other provinces and the Government of Canada: (i) Moody's Investor Services; (ii) Standard and Poors (S&P); and (iii) Dominion Bond Rating Service Limited (DBRS). The rating scales and categories vary and the agencies also vary somewhat in the emphasis they place on the respective financial and economic indicators. However, the agencies do tend to rank the provinces in roughly the same relative position.

This province's credit rating with all three agencies has improved somewhat since the early 1990s. The current ratings of the province are as follows:

Table 1-11

Credit Ratings
Province of Newfoundland and Labrador

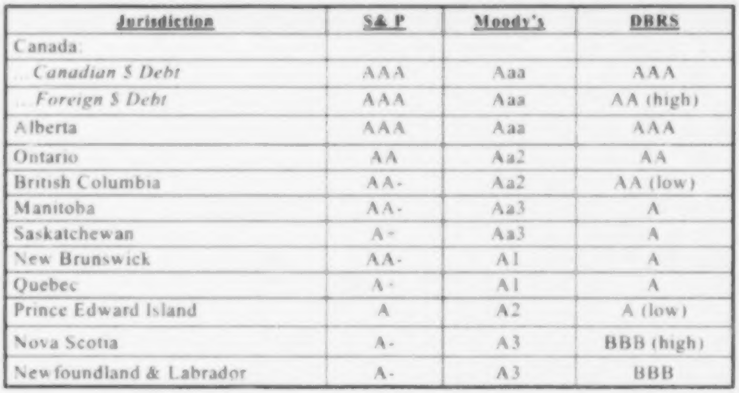
Agency	Rating	Comment
Moody's	A3	Upgraded from Baa1 in May 2002
S&P	A-	Affirmed at A- in July 2002 (upgraded from BBB+ in November 1999)
DBRS	BBB	Confirmed in November 2002 (upgraded from BBB (low) in 1998).

Despite the improved economic performance and outlook and recent upgradings, Newfoundland and Labrador still ranks as the lowest among all Canadian provinces:

Chart 1-16

Comparative Credit Ratings

Canada and the Provinces



Jurisdiction	S& P	Moody's	DBRS
Canada:			
...*Canadian $ Debt*	AAA	Aaa	AAA
...*Foreign $ Debt*	AAA	Aaa	AA (high)
Alberta	AAA	Aaa	AAA
Ontario	AA	Aa2	AA
British Columbia	AA-	Aa2	AA (low)
Manitoba	AA-	Aa3	A
Saskatchewan	A+	Aa3	A
New Brunswick	AA-	A1	A
Quebec	A+	A1	A
Prince Edward Island	A	A2	A (low)
Nova Scotia	A-	A3	BBB (high)
Newfoundland & Labrador	A-	A3	BBB

Source: Government of Newfoundland and Labrador, Department of Finance, as of February 2003

Each agency has issued a report on Newfoundland and Labrador in the last 12 months and some of the main observations are noted below (the following commentaries are based on reports issued before the 2003 budget):

i) **Moody's Investor Services**

Moody's announced its upgrading of this province to A3 in May of 2002, simultaneously with the upgrading of P.E.I. from A3 to A2 and Saskatchewan from A1 to Aa3. In announcing the upgrades for Newfoundland and Labrador and P.E.I., Moody's stated:

> *The rating actions announced today for Newfoundland and Prince Edward Island reflect, primarily, our recognition that the federal government's improved fiscal position – acknowledged in last week's upgrade of federal government debt ratings – provides a more stable environment for federal-provincial fiscal transfers. This is especially important in our analysis of the fiscally weaker provinces*[9]

In its press release on October 21, 2002 following its yearly update on the province, which confirmed the A3 rating for Newfoundland and Labrador, Moody's highlighted "the province's improved debt ratios, brighter economic prospects and support received through federal fund transfers". That press release also commented favourably on the fiscal management of the province through the 1990s:

> *After reporting large deficits in the early 1990s due to sharp contractions in its economic performance and population resulting from the collapse of its fishing industry, the province has made a slow but steady recovery by committing itself to fiscal balance and progressively reducing its budget gap. Tighter budgetary control and renewed economic growth have cut down the province's debt load and provide the potential for further economic and credit improvement.*

Moody's was rather cautious with respect to the potential for further upgradings:

> *The chances of short-term credit quality improvements are modest, however, as the province continues to grapple with rising expenses and a 16 per cent unemployment rate. In addition, the province's use of non-recurring measures to enhance its short-term financial flexibility in response to current spending pressures is, in Moody's opinion, unsustainable. These circumstances limit the potential for further credit improvement.*[10]

Overall, Moody's provided a stable outlook for the province reflecting the "improved debt profile and brighter economic prospects". The agency noted that several large projects including offshore oil development, Voisey's Bay and the Lower Churchill could have a "large positive influence on the province's economy".

ii) **Standard & Poors**

Standard & Poors' (S&P) regular assessment in July of 2002 highlighted the province's solid economic performance in 2001, following three years in which GDP growth exceeded the national average and its promising medium-term economic outlook led by expected growth in the offshore oil sector. They cited "good" budgetary performance in the last several years, despite the return to "modest" deficits in fiscal 2002. S&P observed the province's financial challenges, related to low revenue growth and ongoing spending pressures in health care would likely "constrain financial flexibility".

The various oil projects, Voisey's Bay, call centers, and growth in tourism are among the factors highlighted in a generally favourable assessment of the economy. They cited "prudent fiscal planning during the past five years" as a contributing factor to the declining relative debt burden as meaning by various ratios.

The 2002-03 budgetary deficit was noted as was the increase in direct debt however, S&P viewed these as short-term situations:

> *Standard and Poors' views the deterioration in the fiscal position in fiscal 2002 and 2003 as cyclical and expects net tax – supported debt as a share of GDP – to begin to decline again in the medium term alongside the rebound in Newfoundland and Labrador's economy*[11]

S&P noted that Newfoundland and Labrador has the highest public sector pension burden of all provinces but emphasized government's ongoing priority to reduce the unfunded liability. Overall, S&P's outlook appears to be relatively positive.

> *The outlook reflects Standard and Poors' expectation that despite near term challenges to budgetary results, the province will remain committed to returning to a balanced budget after fiscal 2003, leading to a gradually declining debt burden in the medium term.*[12]

iii) Dominion Bond Rating Service (DBRS)[13]

In its rating assessment of the strengths of Newfoundland and Labrador, DBRS designated the province as one of the growth leaders in Canada citing: "enhanced economic stability" from significant infrastructure development, and growth in value-added manufacturing, energy, tourism and customer-contact centers. It also flagged the reduced debt to GDP ratio, due to strong economic growth, as a significant positive feature along with, reduced personal and corporate taxes. In addition, it cited developments in the energy sector which have "greatly invigorated the region in recent years and continues to hold great promise". In this regard, increased production at Terra Nova, the development of White Rose and the possibility of a Lower Churchill project are all noted as positive factors for the economy.

DBRS suggested that the revenue projections in the 2002-03 budget were "very conservative". The agency explained that while economic growth is expected to impact positively on revenues and maintain the downward trend in the debt to GDP ratio, "opportunities for fiscal improvement are expected to remain limited in the near term as the province continues to match a large part of revenue growth with new spending."

While reduced debt burden (relative to GDP) is highlighted as a strength, the high debt level, "highest of all provinces relative to GDP" is also listed as a challenge. Other key challenges noted are: below average economic fundamentals, a volatile resource-based economy, declining population, and a high dependence on federal funding which "exposes the province to adverse changes in the funding formula and in the level of economic activity in the largest provinces."

Finally, DBRS echoes the comments of successive Auditors General of Newfoundland and Labrador on the accounting approach used by the province for budgetary purposes:

> *The Province continues to use cash accounting for budget purposes, instead of the modified accrual accounting approach used by all other provinces.*

> *This generally considerably understates the province's fiscal imbalance, reducing the incentives to improve fiscal results.*[14]

As was noted previously, the province has begun to address this latter issue with the expanded budgetary reporting and disclosure it included in the 2003 Budget.

Fiscal Position in 2003 – An Assessment

The 2003 Budget

Clearly the financial position of the province at any point in time is not simply the result of the budgetary decisions in any one year. In many respects it is an amalgam of a vast array of public policy decisions integrated with the evolution of the federal/provincial fiscal frameworks over a long period of time. The Budget is, however, critically important in providing an up-to-date perspective on government's own assessment of its economic and financial position, its financial strategy, its financial plans and outlook, and its approach to fiscal management.

What the Budget says:

(a) The province experienced exceptional real GDP growth of 8.2 per cent led by increased oil production and high oil prices in 2002. The GDP outlook for 2003 is strong (5.4 per cent real growth), bolstered by significant capital investment in White Rose, and Voisey's Bay, and continued growth in employment is expected.

(b) Provincial source revenues were up strongly ($177 million from the budgeted level) in 2002-03 reflecting the economic strength, while federal revenues were below budget ($27 million). As a result of this net growth in core revenues, some planned one-time revenues were deferred. The Budget notes that provincial own-source revenues in 2003-04 are budgeted to be up $625 million over 1994-95. The Budget presents a chart showing the trend in offshore oil revenues rising from approximately $150 million at present to in excess of $650 million by 2006-07.

(c) The deficit in 2002-03 came in at $62 million – $31 million below budget on the province's historic "cash" based method of reporting. However, the deficit was $143 million when the borrowings for other government entities are included.

(d) The Budget focuses on improved accountability by expanding its reporting format to include three measures of the annual deficit. For 2003-04 the Budget projects a deficit of $213 million, based on historic "cash" reporting; $287 million based on including borrowings for other entities (a consolidated cash based reporting measure); and $666 million based on "accrual" accounting.

(e) Social programs are sustained. Taxes on tobacco are increased and liquor prices can be expected to increase – to generate approximately $10 million each in additional revenue. There are no further tax increases. Various new program expenditure initiatives are announced.

(f) The Budget targets the elimination of the deficit by 2007-08 based on the expectation of internal revenue growth from continuing strong economic performance. It notes this could be accomplished by a modest successive deficit reductions of $75 million a year.

(g) The Budget expresses concern over the Government of Canada's decision not to renew various cost sharing arrangements. It highlights the decline in various transfers. It emphasizes the impact of declining population on revenue transfers. It calls upon the federal government to renew and strengthen its financial commitment to the province.

It should be acknowledged that the Province has achieved its annual budgetary deficit targets in recent years and, in fact, has improved upon them. Year after year, significant favourable year-end adjustments have augmented the revenue stream to enhance the budgetary position. While this trend could be a factor which influences government's ongoing tolerance of budgetary deficits, it is worthy of note, of course, that at some point year-end revenue adjustments could prove to be unfavourable. It is also important to note that a narrow focus on the deficit as it has been reported, does not provide a complete picture of the province's unfolding financial position, particularly as it relates to the trend in the public sector debt.

What the Budget does not say

(a) The Budget speech does not address the mounting debt burden of the province. Total public sector debt will increase by some $450 million in the coming year, bringing it to $8.3 billion. The speech notes that the budgetary deficits have averaged $25 million a year in the seven years up to and including 2002-03. It does not state that with the 2003 budget, the funded public sector debt to the end of 2003-04 will have increased by $1.8 billion, or an average of more than $350 million a year since March 31, 1999. In fairness, the numbers are in the budgetary schedules but the unfolding debt situation is not addressed in the budgetary narrative.

(b) The Budget explains that current account revenues in 2003-04 will be up by $96 million from the previous year. It does not go on to explain that "related revenues" will be down by some $76 million yielding a net increase in combined current account and related revenues of just $20 million or 0.5 per cent. It is the relatively flat projections for combined current account and related revenues in 2003-04, set against gross current account expenditures which are budgeted to increase by 4.9 per cent which contributes to the widening deficit and which yield a deficit of over $100 million on current account. No plan to address the current account deficit is presented.

(c) The Budget sets out potential targets for deficit reduction of $75 million per year, for the next four years, but does not provide multi-year projections nor does it provide a plan as to how those targets would be achieved (other than a statement that they could be accomplished by revenue growth). It does not address the elimination of the accrual deficit. Even if the $75 million one-year deficit reduction targets were achieved, $366 million of the accrual deficit would remain.

(d) The chart presented in the Budget which illustrates the expected pronounced growth in offshore revenues does not explain that these are gross revenues before the impact of equalization reductions. It does not make it clear that beyond the very short term Newfoundland and Labrador's net gain will likely be in the range of 30 per cent to 40 per cent of these numbers. Beyond 2011, the current Atlantic Accord formula will have expired and the maximum provincial share would be limited to 30 per cent of provincial-type oil revenues. Furthermore the Budget does not indicate that, based on the resource development profile of these existing oil projects, these oil revenues would peak around 2010 and then decline steeply.

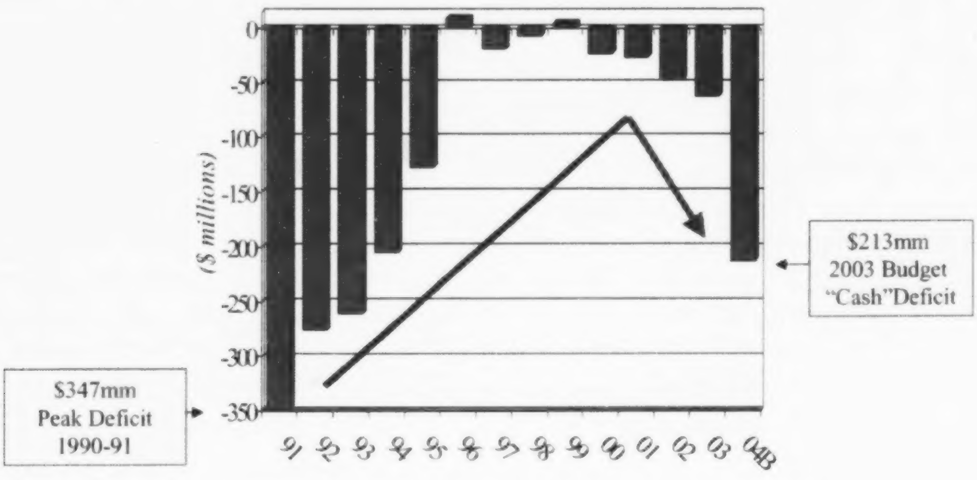
(e) Under government's expanded budgetary reporting approach in 2003, it included a reconciliation of budgetary requirements to an accrual basis of budgetary reporting (Statement III). This statement indicates that net pension interest and accrued costs are projected to total $302 million in 2003-04. Comparable figures are not provided for 2002-03. However, the projections for 2003-04 represent an increase of over $100 million from the net pension expense accrual recorded in the public accounts for 2001-02. The reasons for the significant increase are not clear from the budget, nor is there an update on the trends in the government's unfunded pension liability. *Since this was the first time this type of pension cost accrual information was provided with the budget, government may wish to expand its disclosure in the future.*

At first glance, the 2003 budgetary position of Newfoundland and Labrador represents a distinct contrast against the encouraging trend of financial recovery evident through much of the 1990s, after the financial crisis of 1990-91. The 2003 budgetary deficit of $213 million, or $287 million, or $666 million (depending on the accounting treatment preferred) represents a significant change of fiscal direction from the budgetary reports of the last several years. Even using the most modest "cash" deficit indicator, the traditional reporting method of the province, the new direction is pronounced.

Chart 1-17

Reported Deficit Trend

(fiscal year ended March 31)



Source: Department of Finance; Public Accounts 1990-91 to 2001-02 and Budget 2003

In many respects, the apparent change of direction should not come as a surprise as the seeds of a growing underlying deficit have been sown for some time.

Emergence of the Underlying Deficit

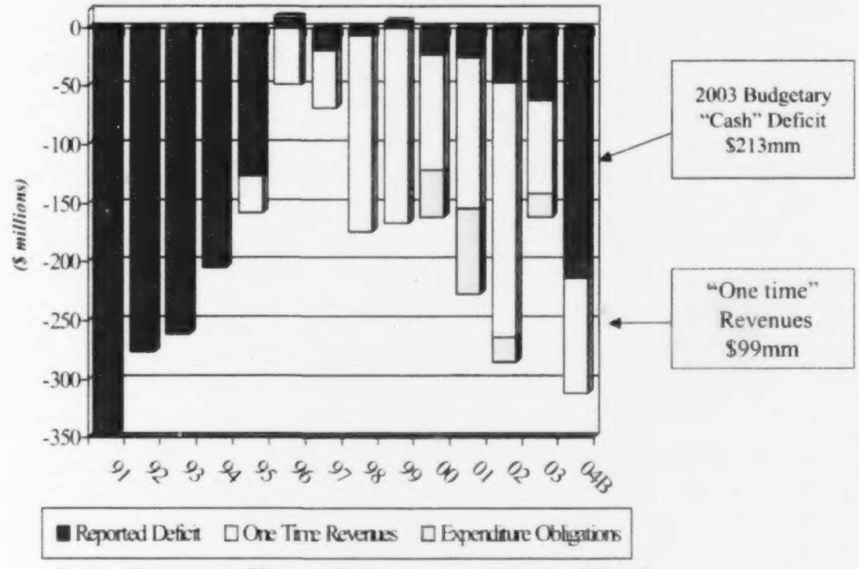
Overall, core-revenue growth had been constrained for a number of years but a large part of the impact had been temporarily offset by "one-time" revenues. Expenditure growth has been fueled by the rapid escalation in health costs augmented by the public sector salary settlements negotiated in 2001-02, the impact of which is only now fully reflected in the 2003-04 expenditure budgets. In addition, the operating deficits of health boards had not been budgeted over the years but they were nonetheless obligations of government. The underlying deficit trend, excluding one-time revenues and including just the expenditure obligations for hospital deficits in recent years illustrates the emergence of the mounting underlying deficit long before 2003:

Chart 1-18

Elements of Underlying Deficit

Impact of "one-time" revenues & key expenditure obligations

(fiscal year ended March 31)



Source: Department of Finance; Public Accounts 1990-91 to 2001-02 and Budget 2003

While this is an overly simplistic analysis it does indicate that the elements of a core deficit in excess of $150 million have existed for some time. (For comparative purposes with prior years, Chart 1-18 excludes the borrowings for "other entities" which totaled $81.5 million and $73.9 million in 2002-03 and the 2003-04 Budget respectively.)

The province recorded particularly strong and unexpected growth in its core revenues in 2002-03, due in large measure to its outstanding 8.2 per cent real growth in GDP. Core revenues were up $150 million over budget and this revenue growth is now reflected in the budgetary base for 2003. On a "go-forward" basis the underlying deficit has been examined on the following basis: (i) the "cash" deficit ($213 million) projected for 2003-04 is the base; (ii) "one-time" revenues in 2003-04 are excluded because they are of a non-recurring nature ($99 million); (iii) it is assumed as well that a portion of prior year adjustments from various revenue sources cannot be counted on as recurring in nature ($50 million); (iv) funding for other entities (which totaled almost $74 million in 2003-04) are assumed to total $60 million on a go-forward basis; and (v) it is assumed that there will be sufficient overall growth in core revenues to offset the general escalation in government expenditures. This analysis produces an underlying consolidated deficit of some $420 million as follows:

Table 1-12

The Underlying Deficit

Adjustments to establish a base for "go-forward " projections

	($ millions)	
2003 Budget - Cash Deficit Forecast		**213**
"One-time Revenues" in 2003 Budget		
...Sinking Fund Recoveries	37	
...CHST Supplement	42	
...NLHC/NLC	**20**	
		99
Prior Year Adjustments in 2003 Budget		**312**
... Various Revenue Sources (est.)		**50**
Underlying "Cash" Deficit		**362**
Other Entities: ("go forward" assumptions)		
...N&L Education Investment Corp. (est.)	20	
...NMFC (est.)	27	
...Other (est.)	13	
		60
Underlying "Consolidated" Deficit		**422**

Source: Budget 2003 Newfoundland and Labrador and estimates by the author

On a full accrual basis of accounting, the go-forward deficit would appear to be in excess of $750 million. The most significant additional adjustments to the above projections would be related to net pension costs ($300 million) and foreign exchange amortization ($50 million).

Root Causes of the Deficit

It is legitimate to ask – What is the origin of the large underlying deficit projection for a province that actually recorded a budgetary surplus as recently as 1998-99? Once the short-term benefit of the one-time revenues, the revenue smoothing technique, and the pension issue are taken into account, and one reflects on the key revenue and expenditure trends previously outlined, the fundamental causes are readily apparent.

Revenues:

i) HST Implementation and PIT reduction: Effective reductions in the two major provincial revenue sources since 1997-98 reduced the annual revenue base by in the order of (estimated impact $160 to $200 million).

ii) Population Decline over the past 10 years which decreased entitlements from the two major federal revenue sources, equalization and CHST (some of these adjustments are only now being reflected). In addition, the population decline has detracted from the growth in provincial revenue sources such as personal income tax, sales tax, gasoline and tobacco taxes (estimated impact in the order of $200 million).

iii) Federal Restraint in transfers for social programs, particularly the CHST which has held federal cash transfers below the rate of escalation in the cost of program delivery and indeed below the levels received under predecessor transfer programs.

Expenditure:

i) Escalation in Health Care Costs associated with increased drug costs, service costs, increased demand, new diagnostic and other equipment, facilities upgrading, expansion and replacement.

ii) Salary and Wage Settlements over the past two to three years which are only now being fully reflected in the Budget.

iii) Relatively High Program Spending per capita which reflects the fact that as the population base has declined, program spending has not been reduced on a pro rata basis. Furthermore, new spending initiatives have been undertaken in successive budgets._

iv) Interest costs associated with funding the province's annual deficits and new borrowings to retire obligations associated with the $3.4 billion unfunded pension liabilities.

One-time revenues have clouded the underlying deficit and government has not launched a financial response or restraint program to address the increasing fiscal imbalance. A further root cause of the underlying deficit on an accrual basis, is the large unfunded pension liability. The origin of the pension funding issue dates back to the 1960s when public service pension plans were initially introduced without funding arrangements.

Mixed Signals

The overall assessment of the financial position of the province that evolves from the foregoing analysis is somewhat at variance with what one might expect from the tone of government's reports on the specifics of the budgetary position of the province and the widespread favourable independent commentary on the performance of the economy.

Favourable Signals

From its perspective, government has characterized its current deficit position as "affordable". The budget states that government has "*... the best record of sound prudent fiscal management since Confederation, by any measure.*"[15]

In some respects as well, the external assessment by the financial community has been positive. The province's credit rating was upgraded by one of the key credit rating agencies in May 2002 and declared stable by the other two since then.

In addition to signals implying financial strength, there have been successive reports of growing economic strength looking back to 2002, the Budget stated:

> *we should lead all provinces in 2002 with expected real GDP growth of 3.7 percent. This would mark the third time in five years that we top all provinces. It would be the fourth time that we exceeded the national average.*[16]

During 2002, the economic performance surpassed these expectations by a wide margin. The mounting economic strength of the province was heralded in successive publications by major banks and financial institutions throughout the year. For example; in July 2002, the Toronto-Dominion Bank ranked Newfoundland's ongoing economic performance at the top of all provinces:

> *...not only will rising crude oil production at the Terra Nova and Hibernia Offshore oil fields in 2002 likely fuel nation leading growth of 6.3 per cent in Newfoundland and Labrador in 2002, but the province is expected to remain on top of the leader board again next year. In 2003, with development gearing up at both the White Rose offshore oil project and Voisey's Bay nickel project, real GDP growth in the province is projected to reach a still-scorching 5.3 per cent.*[17]

The economic commentary became more and more positive as the year progressed:

> *"Energy and mineral development will leave Newfoundland and Labrador firmly atop the provincial growth charts this year and next".*[18]

Employment is increasing and reached a record high in 2002 and the ratio of debt to GDP has declined significantly in the last 10 years. These types of signals are extremely positive and suggest a very favourable outlook.

Cautionary Signals

Clearly, some of the underlying budgetary trends are not consistent with the tone of the economic outlook. The challenging elements in the fiscal equation have been acknowledged by various analysts that assess government finances on an ongoing basis. Just as they acknowledge the province's impressive GDP growth, driven by oil production, some have been very direct in their commentary on the fiscal position of Newfoundland and Labrador over the last couple of years.

The following are extracts from various external assessments of the 2002 Budget of Newfoundland and Labrador:

> ***TD Economics***: *"The government will eventually have to deal with its structural deficit, hidden in part by its annual revenue smoothing technique. Only then can the government truly address its two biggest challenges – reducing the debt, and whittling down its high tax rates"*[19]
>
> ***Investment Dealers Association of Canada***: *"...Newfoundland faces stringent financial conditions over the near term."*
>
> *"...with public debt on the rise, debt servicing has been a factor in total spending outpacing the rise in budgetary revenues for four straight years. The widening in the province's annual budget deficit is somewhat disappointing, given the unusually strong economic growth in this period that presented Newfoundland and Labrador an opportunity to place finances on firmer ground."*[20]

The 2003 Budget has been met with some mixed reviews. Scotia Economics summarized the Budget and characterized it as "... Adjusting to Prosperity".

> ***Scotia Economics:*** *"With its additional revenue, the Newfoundland and Labrador government has undertaken to reduce its consolidated financial requirement by $75 million annually between next year and FY07/08. This should at least restrain what has become one of the heaviest provincial burdens. Newfoundland's debt service continues to use nearly 15 cents of every revenue dollar, compared to a ten-province average that has moved down to about 12 cents."*[21]

The Bank of Montreal was more critical in its assessment of the 2003 Budget:

> ***Bank of Montreal*** *... A deficit of $666 million, or 4.0 per cent of GDP, is simply not sustainable. When deficits hit four per cent of GDP in Alberta, Saskatchewan and Ontario in the early 1990s, governments there took drastic action to eliminate deficits and reduce debt. Further, their situations were less dire in that their debt levels were substantially below what that of Newfoundland is now.*
>
> *The Newfoundland government states that, for a few years, this size of deficit is manageable and, indeed, it would be if the debt were not so high and there were convincing evidence that deficits were headed sharply lower. Unfortunately, neither is the case.*

> *... Newfoundland's debt spiral must come to an end. Unfortunately, it is not easy to see how this will happen. With the highest debt levels and the highest personal income taxes in the country, the province cannot afford to either increase taxes to reduce the deficit nor cut taxes to stimulate the economy.*[22]

In its assessment of the 2003 Budget, the T.D. Bank Financial Group characterized the situation as "undeniably, ... one of the most challenging fiscal environments among the provinces."

> *"**T.D. Economics** "...Although other regions in Canada are also feeling the heat to re-invest substantial amounts in health care and education, Newfoundland and Labrador must face these pressures while confronting a declining population base. Since federal transfers are calculated on a per capita basis, the total amount from Ottawa declines as the population shrinks, while the cost of public-service delivery per capita increases.*
>
> *Still, the Government of Newfoundland and Labrador must be careful not to risk reversing some of the significant fiscal progress it has achieved since the early 1990s. In fact, even if the government manages to post a balanced budget by fiscal 2007-08, the level of taxpayer-supported debt is likely to rise to $7.0 billion to $8.0 billion – almost twice the level recorded in fiscal 1997-98 – which would make the government increasingly vulnerable in the event of a sharp slow-down in economic growth, or a sharp increase in interest rates."*[23]

A Fiscal-Economic Conundrum

The people of Newfoundland and Labrador face a fiscal-economic conundrum. Recently reported "modest" deficits, combined with strong economic growth are contrasted against concerns about the widening deficit gap, the mounting debt burden and high tax rates. While much of the recent commentary naturally focuses on the 2003 budget, the fiscal challenges have evolved over a number of years.

The elements of the fiscal challenges confronting Newfoundland and Labrador are apparent from the foregoing review and analysis:

i) Revenue base constrained

- Population decline
- Important tax cuts in key revenue sources limited revenue growth
- Restraint on federal transfer payments
- Ongoing competitive pressures for further tax cuts

ii) One-time revenues depleted

- Sinking fund recoveries
- HST & Term 29 transitional payments

iii) Net revenue growth potential restrained

- Equalization losses increase as oil revenues grow
- Potential impact of future GDP growth largely diminished

iv) Expenditure requirements increasing:

- Ongoing pressures in health care costs
- Public sector compensation obligations
- Base expenditures not reduced in proportion to population (and revenue) decline

v) Debt burden increasing:

- Requirements to fund deficits
- Increased borrowing to fund long-standing and growing pension obligations

vi) Large underlying deficit

The analysis illustrates the significant inconsistencies between current economic trends as portrayed by GDP growth and the fiscal direction depicted by the widening deficit gap and escalating debt. The increased benefits of oil production are only beginning to be realized. But, in the absence of public policy changes, these benefits will be substantially diminished by the equalization impact (discussed in Chapter 3) with residual gains insufficient in themselves to eliminate the deficit or curb the escalation in debt.

Chapter 2

Relative Fiscal and Economic Position

A comparison of the fiscal position of Newfoundland and Labrador relative to the other provinces and the Government of Canada

> *... It is when we compare Newfoundland of today, after a dozen years of what for us has been phenomenal progress, with the rest of Canada that we are brought up by a short turn to the realization of the fact that we have a quarter century at best, and even a half century at worst, to go before we catch up with today's general average in Canada.*[1]
>
> Hon. Edward S. Spencer
> Minister of Finance
> Newfoundland and Labrador
> Budget Speech, June 22, 1960

Where Do We Stand in Canada?

The foregoing assessment of the evolution of the fiscal position of Newfoundland and Labrador provides substantial background information on the province's financial position on a stand-alone basis. However, with the exception of the comparative review of the debt position and credit ratings of all provinces, the analysis to this point begs the question – how does the province rank against the other provinces on key fiscal and economic criteria? This chapter will address this issue from a number of perspectives starting with a comparison of fiscal indicators and progressing to economic indicators.[24]

The analysis quickly shows that, as a nation, Canada has reported remarkable fiscal and economic success in the last decade. (This comparative analysis is, for the most part, based on the most recent comparative data available as of January 2003. However, it has been revised to reflect the February Federal Budget. Chapter 3 provides an updated comparative budgetary outlook for 2003-04 and beyond.)

Surplus/Deficit Comparison

Looking back 10 years to the 1993-94 fiscal year, all Canadian provinces recorded deficits. Newfoundland and Labrador's deficit was $205 million in that year, while Ontario recorded an enormous shortfall of $11.2 billion. In that year all provincial deficits together totaled $20.2 billion and the deficit of the Government of Canada amounted to over $42 billion:

Table 2-1

Budgetary Surpluses & Deficits

Provincial & Federal Comparison

1993-94 to 2002-03 Revised

(millions)

Govt.	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03R
NL.	**(205)**	**(127)**	**9**	**(19)**	**(7)**	**4**	**(23)**	**(26)**	**(47)**	**(62)**
P.E.I.	(71)	(1)	4	(4)	(7)	6	(5)	(12)	(15)	(8)
N.S.	(549)	(235)	(201)	(116)	(442)	(261)	(797)	147	(54)	14
N.B.	(266)	(68)	(51)	66	35	(165)	8	82	37	3
Que	(4923)	(5821)	(3947)	(3212)	(2157)	126	7	427	22	0
Ont.	(11202)	(10129)	(8800)	(6905)	(3966)	(2002)	668	3325	375	524
Man	(431)	(196)	157	91	76	31	11	41	63	4
Sask.	(272)	128	18	407	35	28	83	58	1	2
Alta.	(1384)	958	1132	2527	2639	1026	2717	6388	772	1619
B.C.	(899)	(228)	(317)	753	(167)	(1003)	40	1426	(1233)	(3800)
All Provs	**(20202)**	**(15719)**	**(11996)**	**(6412)**	**(3961)**	**(2210)**	**2709**	**11856**	**(79)**	**(1504)**
Federal	**(42012)**	**(37462)**	**(28617)**	**(8897)**	**3817**	**3112**	**12713**	**18148**	**8907**	**6400**

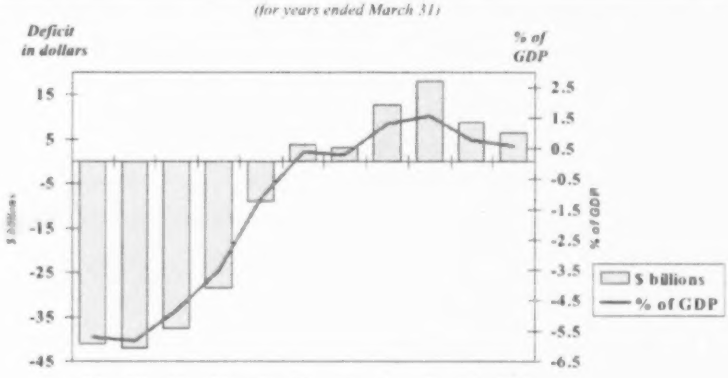
Source: *Department of Finance Canada, Fiscal Reference Tables, October 2002, Provincial and Territorial Governments Public Accounts and revised for 2002-03 based on 2003 Budgets.*

Federal Recovery: The recovery of the federal budgetary position was perhaps the most impressive of all Canadian governments. From 1993-94, when it recorded a peak deficit of $42 million, the Government of Canada progressed through successive years of fiscal restraint and deficit reduction until 1997-98 when it recorded a surplus of $3.8 billion. Since then the trend of surpluses has continued and the federal debt has been reduced by $46.7 billion.

Chart 2-1

Federal Budgetary Balance

Deficit/Surplus



Source: Government of Canada, Department of Finance (public accounts basis), Budget 2003, and TD Economics.

In his budget of February 18th, 2003, the federal Minister of Finance revised the projected 2002-03 surplus to $6.4 billion (up more than 80 per cent from the budgeted level of $3.5

billion). The federal Minister indicated that since 1995 Canada has recorded the largest reduction in net debt among the G-7 countries and it is now projected to be the only G-7 country in surplus in 2003. The improved fiscal results since 1993-94 have been accomplished primarily through government initiatives to achieve significant reduction in program spending as a percentage of GDP. In addition, the debt service costs has declined through a combination of reduced debt, lower interest costs and some accounting changes.

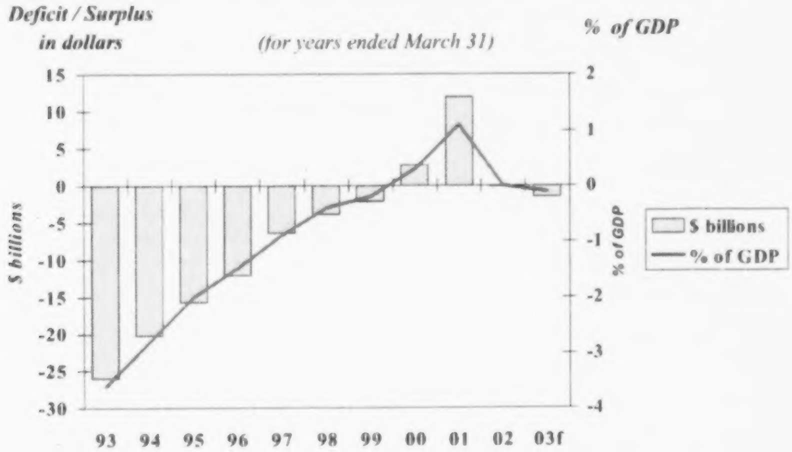
The Government of Canada is projecting balanced budgets for the next three years after providing for a $3 billion contingency reserve and a $1 billion to $2 billion fiscal prudence reserve each year. It has been suggested by many analysts that the Government of Canada is intentionally understating its projected fiscal position to reduce pressures to increase spending and cut taxes.

Provincial Recovery: Improving economic performance combined with a concentrated focus on fiscal discipline and repair generated improved financial performance in most provinces through the mid to late 1990s. The combined provincial deficits were progressively reduced in the years leading up to 1999-00 and 2000-01 when, in the aggregate, surpluses of $2.7 billion and $11.9 billion, respectively, were achieved:

Chart 2-2

All Provinces Budgetary Balance

Deficit/Surplus



Source: Government of Canada, Department of Finance, TD Economics, and provincial budgets.

Eight provinces recorded surpluses in 2000-01 – only Newfoundland and Labrador and P.E.I. registered deficits of $26 million and $12 million, respectively. (Newfoundland and Labrador could have recorded a surplus but chose to defer certain revenues to the following year.)

The economic slowdown in 2001-02 brought a change in direction in fiscal trends of the provinces and brought renewed emphasis on fiscal restraint in most provinces. The provinces moved from a combined surplus of $11.9 billion in the previous year, 2000-01, to a virtually balanced position overall in 2001-02.

The 2002-03 budgets reflected an aggregate provincial financial deficit of almost $3.8 billion – the increased deficit was driven by B.C.'s $4.4 billion deficit budget. While Newfoundland and P.E.I. budgeted for increased deficits, the remaining seven provinces produced balanced budgets for 2002-03. The revised estimates for 2002-03 now indicate that the combined net deficit for the provinces will be more in the order of $1.5 billion with significant improvements reported in Alberta, Ontario and B.C.

The relative order of magnitude of the provincial surpluses and deficits is illustrated by a comparison of the "Surplus and Deficit to GDP" ratios over the past 10 years:

Table 2-2

Surpluses & Deficits to GDP Ratio
Provincial & Federal Comparison
1993-94 to 2002-03 Projected

(percent)

Govt.	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03P
NL.	**(2.1)**	**(1.2)**	**0.1**	**(0.2)**	**(0.1)**	**0.0**	**(0.2)**	**(0.2)**	**(0.3)**	**(0.4)**
P.E.I.	(2.9)	0.0	0.2	(0.1)	(0.2)	(0.2)	(0.2)	(0.4)	(0.4)	(0.2)
N.S.	(3.0)	(1.3)	(1.0)	(0.6)	(2.2)	(1.2)	(3.5)	0.6	(0.4)	0.0
N.B.	(1.8)	(0.5)	0.2	0.4	0.2	(0.9)	0.0	0.4	0.2	0.1
Que.	(3.0)	(3.4)	(2.2)	(1.8)	(1.1)	0.1	0.0	0.2	0.0	0.0
Ont.	(3.8)	(3.3)	(2.7)	(2.0)	(1.1)	(0.5)	0.2	0.8	0.1	0.1
Man.	(1.7)	(0.8)	0.6	0.3	0.3	0.1	0.0	0.1	0.1	0.0
Sask.	(1.2)	0.5	0.1	1.4	0.1	0.1	0.3	0.2	0.0	0.0
Alta.	(1.7)	1.1	1.2	2.6	2.5	1.0	2.3	4.5	0.5	1.3
B.C.	(1.0)	(0.2)	(0.3)	(0.4)	(0.1)	(0.9)	0.0	1.1	(1.5)	(2.8)
All Provs	(2.8)	(2.0)	(1.5)	(0.9)	(0.4)	(0.2)	0.3	1.1	0.0	(0.1)
Federal	(5.8)	(4.8)	(3.5)	(1.1)	0.4	0.3	1.3	1.6	0.8	0.6

Source: Department of Finance Canada, Fiscal Reference Tables, October 2002, Provincial and Territorial Governments Public Accounts, TD Bank Financial Group, TD Economics, Canadian and Provincial Governments Surpluses and Deficits, June 25, 2002, and revised estimates for 2002-03 based on 2003 budgets

The improving trend is evident in most provinces with the notable exceptions of British Columbia and, to a lesser extent, Prince Edward Island and Newfoundland and Labrador in 2002-03.

While the revised deficit in this province for 2002-03 at 0.4 per cent of projected GDP represented a marginal increase from the 2001-02 level, it was still a substantial improvement from the 2.1 per cent of GDP recorded in 1993-94. British Columbia on the other hand, with a revised deficit of 2.8 per cent of GDP in 2002-03 was an anomaly. B.C.'s deficit is directly attributable to large recent tax cuts. It has committed, and is required by legislation, to restore fiscal balance by 2004-05.

Exhibit 1 on the following page is a synopsis of the provincial budgets for the 2002-03 fiscal year, published by Scotiabank in September 2002. It not only provides a concise overview of the respective provincial budgets, it also highlights common elements running through many budgets – in particular a desire to reduce personal and corporate taxes but, in several cases, the necessity to postpone such action.

The summary indicates that three of the seven provinces with balanced budgets were recording deficits before drawdowns from their Fiscal Stabilization Funds (one other province, Quebec, utilized significant reserves to achieve fiscal balance in 2002-03)

EXHIBIT 1

PROVINCIAL BUDGET SYNOPSES: 2002-03

Newfoundland and Labrador's deficit is forecast to widen again this year, despite the postponement of the last stage of its PIT cut.

P.E.I. is also forecasting a larger deficit in FY02/03, even after deferring some highway investment to accommodate wage increases and higher health outlays.

Nova Scotia is on track to achieve its target of balanced books by FY02/03, after steadily reducing its deficit before unusual items from $322 million in FY99/00. Some tax relief is now anticipated in FY03/04.

New Brunswick expects a modest surplus for the seventh time in eight years. A drawdown from the Fiscal Stabilization Fund will allow further tax cuts and spending related to its Prosperity Plan released last February.

Quebec's November budget, to sustain growth, accelerated capital projects, enhanced corporate tax credits and provided assistance to QST credit recipients. Its March update confirmed a zero FY02/03 balance, while promoting biotechnology and innovation.

Ontario shifted gears to stay in the black, delaying planned personal, general, corporate and manufacturing income tax cuts from 2003 to 2004 and seeking increased sales and commercialization of government assets.

Manitoba, with $93 million from its Fiscal Stabilization Fund and a $75 million contribution from Manitoba Hydro's export profits, will maintain a small surplus in FY02/03 as it continues to chip away at its tax burden, and commits to substantial infrastructure projects.

Saskatchewan will retain a positive budget balance, aided by a streamlined government structure and a further draw down from its Fiscal Stabilization Fund. Spending is focused on health, education and infrastructure.

Alberta's forecast of a $724 million FY02/03 surplus incorporates a conservative oil and natural gas price forecast. The corporate tax cuts scheduled for April 2002 were slowed, and higher medical insurance premiums and tobacco taxes will help to fund hefty increases in health and education spending.

British Columbia, with major personal and corporate tax cuts in place, forecasts a record $4.4 billion FY02/03 deficit. To achieve balanced books by FY04/05, the new administration is maintaining health and education funding while reducing other program spending 25 per cent over the next three years. A retail sales tax increase combined with higher tobacco taxes and a 50 per cent hike in Medical Services Plan premiums will fund this year's compensation-driven rise in health outlays.

Source: Extracted from "Scotia Bank Provincial Forecast Update, September 2002". This Report was prepared by Scotia Economics as a resource for the clients of Scotia Bank and Scotia Capital. While the information is from sources believed reliable, neither the information nor the forecast shall be taken as a representation for which The Bank of Nova Scotia or Scotia Capital Inc. or any of their employees incur any responsibility.

Balanced Budget Legislation

The huge fiscal challenges confronted by governments in grappling with the deficits of the early to mid-nineties, gave rise to a movement in most provinces to reinforce fiscal discipline and the prudent management of public finances. Accordingly, eight provinces have introduced some form of balanced budget legislation in recent years. Exhibit II provides a very brief synopsis of the legislation in the provinces:

EXHIBIT II

PROVINCIAL BALANCED BUDGET LEGISLATION
BRIEF SYNOPSIS

Alberta's Fiscal Responsibility Act requires Alberta to budget for a surplus (called an economic cushion) of 3.5 per cent of budgeted revenues every year and the elimination of accumulated direct debt by 2025. (Legislation currently under review.)

Ontario's legislation introduced in 1998 imposes a legal obligation on government to balance the budget every year starting in 2001-02. Small deficits, less than one per cent, may be offset by corresponding surplus the next year. (Financial penalties are to be imposed on Ministers for failure to meet requirements) - Exceptions for disaster situations.

Manitoba's legislation introduced in 1995 requires balanced budgets starting in 1995-96. Penalties apply if deficits are incurred. Any deficit must be fully offset by a surplus in the next year. Up to certain limits surplus revenues must be placed in a Fiscal Stabilization Fund - Exceptions for disasters and a revenue decline of more than five per cent.

Nova Scotia's legislation was introduced in 1999 and requires a balanced budget by 2002-03 after which a deficit in one year must be offset by a surplus the next year.

British Columbia's government elected in 2001 introduced legislation requiring balanced budget by 2004-05. It imposes financial penalties on Ministers if fiscal targets are not achieved.

New Brunswick's Balanced Budget Act introduced in 1995 requires budgets for ordinary accounts (non-capital) to be balanced every four year period. Stated as an "objective", not a "requirement".

Saskatchewan's legislation requires balanced budgets every year. Transfers to and from the Fiscal Stabilization Fund are to be considered expenditures/revenues for the purposes of calculating the deficit.

Quebec's 1997 legislation requires balanced budgets each year but allows deficits in exceptional circumstances; severe recession or steep decline in fiscal transfers.

Source: Information extracted from "The Canadian Federal and Provincial Governments – 2002 Overview" by DBRS, dated January 2003, p.23 and "Report on Canadian Government Finances" TD Bank, TD Economics, dated October 2001.

In some cases the legislation goes beyond the annual budgetary balance and sets long-term deadlines for the elimination of debt. Manitoba, for example, requires the elimination of general purpose debt by 2035 and unfunded pension liability by 2040.

While it has been suggested that governments might be using creative accounting, deferrals and reserves to get around the legislation, it is not known whether this is the case. In any event, there is clearly a growing level of public intolerance for such tactics. The mere fact of "balanced budget" legislation underlines the overall public policy objective of balancing the books. *It is recommended the Government of Newfoundland and Labrador introduce balanced budget legislation.*

Revenue Comparisons

A comparative review of revenues and expenditures adds further perspective to the relative fiscal standing of this province in Canada.

Review of Main Revenue Sources

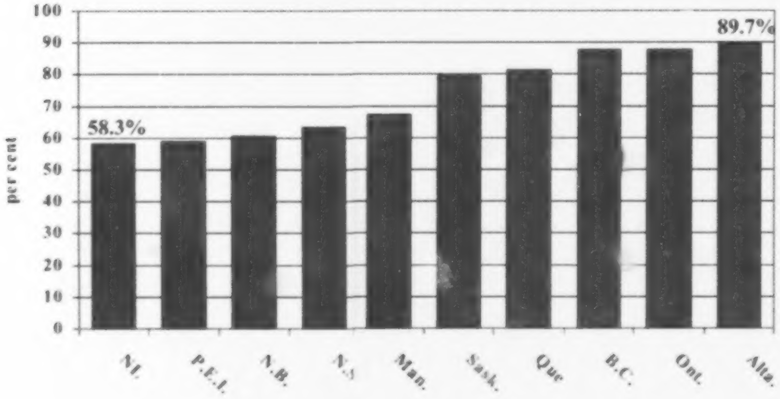
In reviewing the main revenue sources of Newfoundland and Labrador compared to the other provinces, it is important to note that provincial "own source" revenues account for just over 58 per cent of total revenues. While this proportion has increased in the order of 10 percentage points in the last decade, it still ranks with the lowest of all Canadian provinces in terms of its ability to generate revenues from provincial sources.

Chart 2-3

Provincial Source Revenues vs. Total Revenues

As percentage of total revenues

(for year ended March 31, 2002)

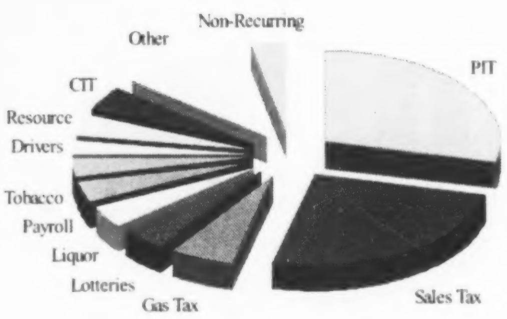


Source: Government of Canada, Department of Finance and provincial Public Accounts.

The main "provincial source revenues" for the Government of Newfoundland and Labrador historically have been sales tax and personal income tax (PIT). In total these two sources accounted for $1,265 million, or 53.9 per cent of all provincial revenues in the 2002-03. (The actual revenues from these two sources combined were up $92 million above the budget in 2002-03.) Chart 2-5 illustrates the breakdown of the provincial source revenue base:

Chart 2-4

Provincial Revenue Sources
Newfoundland & Labrador
(for year ended March 31, 2003)



Sources	*Bud*	*Act*
PIT	611	***671***
Sales Tax	562	***594***
Gas Tax	133	***135***
Lotteries	106	***106***
Liquor	103	***93***
Payroll Tax	84	***84***
Tobacco Tax	81	***80***
CIT	58	***109***
Drivers License	55	***56***
Natural Res.	51	***88***
Other	197	***251***
Non-Recurring	232	***80***
	2273	***2347***

Source: Government of Newfoundland and Labrador, Department of Finance, annual estimates.

There were significant variances, mostly favourable, in provincial revenues in 2002-03. While approximately 10 per cent of the 2002-03 budgeted provincial source revenues were of the non-recurring, "one-time" nature referred to in Chapter 1, strong growth (totaling $177 million) in core provincial revenues lead to the deferral of the majority of these one timers.

In addition to unexpected growth in PIT and sales tax, revenues from natural resource royalties and taxation came in at $88 million, up from the budgeted level of $50 million. This revenue component can be expected to increase dramatically in the coming years. Corporate income taxes (CIT) were budgeted at $50 million but at year end 2002-03 totaled $109 million.

This background on the relative significance of the various revenue components for this province is meant to add some perspective to the inter-provincial comparison which follows.

Comparative Tax Effort

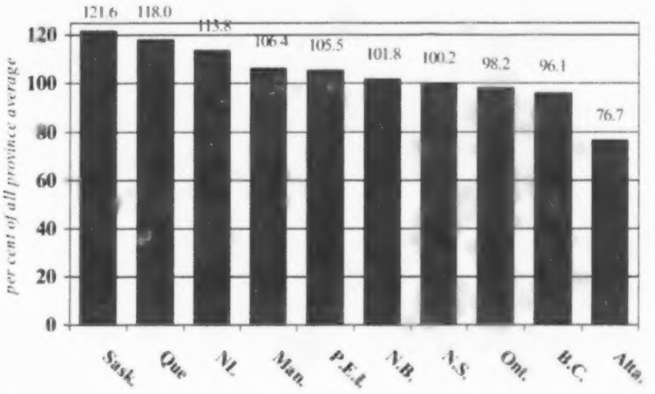
There is a wide variation in tax policies and structures across the country.

While some of the common elements of the provincial tax systems will be compared individually, one of the more revealing overall indicators of the weight of taxation in this province relative to the other provinces is the comparison of "tax effort". This analysis indicates Newfoundland and Labrador has the third highest tax effort at 113.8 per cent of the national average, behind Saskatchewan and Quebec. Alberta, not surprisingly, has the lowest tax effort at 76.7 per cent of the national average.

Chart 2-5

Comparative Tax Effort

Estimated for year ended March 31, 2003



Source: Provincial Department of Finance, derived from the federal third equalization estimate 2002-03 , February 2003.

Comparative Tax Levels

The more prominent taxation instruments in all Canadian provinces include: i) personal income tax, ii) sales tax, iii) fuel taxes, iv) corporate income taxes, and v) tobacco tax. A brief comparison of the rates in each case is outlined below (provincial budgets were being introduced with tax changes as this was being finalized accordingly - the 2003 budget changes are not reflected in all cases):

i) Personal Income Tax (PIT): This is the largest provincial own source tax base in Newfoundland and Labrador and it generated $671 million in 2002-03. This province's PIT rates are generally the second highest in Canada, second only to Quebec. On a combined basis (federal and provincial PIT) for the top marginal tax rate, Newfoundland and Labrador is the highest at 48.64 per cent, just above Quebec at 48.22 per cent. This compares with Alberta which has the lowest top marginal rate at 39 per cent and B.C. which is next at 43.7 per cent.

The following summary of comparative tax rates provides an indication of the provincial income tax rates applicable in 2002 in the various provinces grouped by three categories; low income (generally $0 to $30,000); middle income (generally $30,000 to $60,000) and high income (generally over $60,000):

Table 2-3

Provincial Income Tax Comparison – 2002

Summary Indication of Tax Rates [25]

Provinces	Low $0-30,000	Middle $30-60,000	Over $60,000	Surtaxes
NL	10.6	16.2	18.0	nine per cent of basic provincial tax (BPT) over $7,032
Nova Scotia	9.8	15.0	16.7	10 per cent of BPT over $10,000
P.E.I.	9.8	13.8	16.7	10 per cent of BPT over $5,200
New Brunswick	9.7	14.8	16.5-17.8	-
Quebec*	N/A	N/A	N/A	N/A
Ontario	6.1	9.2	11.2	20 per cent of BPT over $3,747, 36 per cent of BPT over $4727 minus tax reduction
Manitoba	10.9	14.9	17.4	-
Saskatchewan	11.3	13.0	15.0	-
Alberta	10.0	10.0	10.0	-
B.C.	6.1	9.2	11.7-14.7	-

*Quebec's rates are not available on a comparable basis but it is believed they yield an effective rate higher than NL on most tax brackets.

Source: Provincial Department of Finance (note: the rate categories do not exactly correspond among provinces.)

The above table indicates that Newfoundland and Labrador ranks among the highest of the provinces for each tax bracket.

ii) **Sales Tax**: The second largest provincial own source revenue yielded $594 million in 2002-03. The Retail Sales Tax rate in Newfoundland and Labrador was 12 per cent until 1997-98 when the sales tax harmonization agreement with the Government of Canada brought in the combined HST rate of 15 per cent. This reduced the effective provincial sales tax rate to eight per cent, albeit on a broader base. Nova Scotia and New Brunswick moved to the 15 per cent HST rate at the same time. Accordingly, this province's sales tax rate today is generally in line with the median of Canadian provinces. P.E.I. did not convert to the HST and still retains its 10 per cent rate which is the highest in the country. (P.E.I.'s rate is calculated after GST is added and effectively compounds to 10.7 per cent).

Table 2-4

Federal and Provincial Sales Tax Rates
Federal and Provincial Comparison
(percentage)

	G.S.T.	Provincial[1]	H.S.T.	Total
P.E.I.	7.0	10.0	N/A	17.7
Newfoundland and Labrador	-	-	15.0	15.0
New Brunswick	-	-	15.0	15.0
Nova Scotia	-	-	15.0	15.0
Quebec	7.0	7.5	N/A	15.0
Ontario	7.0	8.0	N/A	15.0
British Columbia	7.0	7.5	N/A	14.5
Manitoba	7.0	7.0	N/A	14.0
Saskatchewan	7.0	6.0	N/A	13.0
Alberta	7.0	0.0	N/A	7.0

[1] Reflects the general rate: Some provinces have different rates for liquor, meals and accommodation.

Source: "Tax Bites" Canadian Federation of Independent Business, dated March 2002.

iii) **Fuel Taxes**: Gasoline and diesel fuel taxes are the third largest source of provincial taxation revenue for Newfoundland and Labrador and generated $135 million in 2002-03. This province has the highest fuel taxes in the country as illustrated below:

Table 2-5

Fuel Taxes - 2003
Interprovincial Comparison
(¢/litre)

Province	Gasoline*	Diesel*
Newfoundland and Labrador	16.5	16.5
Quebec	15.2	16.2
Nova Scotia	15.5	15.4
Saskatchewan	15.0	15.0
New Brunswick (2003 Budget)	14.5	16.9
Ontario	14.7	14.3
B.C. (2003 Budget)	14.5	15.0
P.E.I.	14.0	13.5
Manitoba	11.5	10.9
Alberta	9.0	9.0

*Automotive fuels only

iv) **Tobacco Taxes**: Tobacco taxes have been one of the most prominent areas of tax rate increase in recent years. In this province these taxes raised $80 million in 2002-03. The

2003 budget increased the tax rate by $3.00 per carton to generate an extra $11 million a year. Newfoundland and Labrador's new tax rate of $30.00 per carton is fourth highest among the provinces. (The rankings change often in this source as new budgets are released.)

Table 2-6

Tobacco Taxes – 2003
Interprovincial Comparison
($ per Carton of 200 Cigarettes)

Province	Tax
British Columbia	34.00
Alberta	32.00
Saskatchewan	32.00
Newfoundland & Labrador (Budget of 2003)	30.00
P.E.I. (Budget 2003)	29.90
Manitoba	29.00
New Brunswick (Budget 2003)	28.50
Nova Scotia	26.04
Quebec	18.10
Ontario	17.20

Source: Province of Newfoundland and Labrador Department of Finance with revisions based on the New Brunswick, B.C., and Newfoundland and Labrador 2003 budgets.

v) Corporate Income Tax Rates (CIT): The relative ranking of the provinces and the rate structure varies considerably depending on the income level. Saskatchewan and P.E.I. have the highest overall CIT rates. Newfoundland and Labrador's rates fall generally in the middle as outlined below:

Table 2-7

Corporate Income Tax (CIT) 2003
Interprovincial Comparison
(percentage)

	Income Levels		
	<$200,000	**$200,000 to $300,000**	**>$300,000**
Saskatchewan	6.00	6.00	17.00
P.E.I.	7.50	16.00	16.00
Nova Scotia	5.00	16.00	16.00
Manitoba	5.00	5.00	16.00
Newfoundland & Labrador*	5.00	14.00	14.00
New Brunswick (Budget 2003)	3.00	3.00**	13.00
Ontario	5.50	5.50	12.50
Quebec	8.90	8.90	8.90
B.C.	4.50	4.50**	13.50
Alberta	4.50	4.50	13.50

* Budget 2003 announced that the threshold would be increased for the small business tax from $200,000 to $300,000 over four years.

** Rates applicable up to $400,000 income.

Source: Canadian Federation of Independent Business "Tax Bites" dated February 2003 (ranges can vary somewhat among provinces).

The tax strategy varies amongst the provinces. New Brunswick has launched a major budgetary thrust with the lowest tax rates (3.0 per cent) for small to medium sized businesses. Quebec, with a single rate across the board, has the highest tax on small business and the lowest tax on large business. (The lowest tax on large business of course is a conscious move by Quebec to entice large business to choose Quebec.)

This is becoming an increasingly competitive element of the tax system as provinces are cutting CIT rates as incentives to spur business activity. Some provinces are expanding the application of the small business rates to more companies by increasing the threshold before the higher rate becomes applicable. (The comparison above is generally based on 2002 data and the new budgets for 2003-04 may provide further changes.)

vi) **Payroll Tax/Health Insurance Premium**: Newfoundland and Labrador has a payroll tax which generates approximately $84 million in revenue annually and is generally based on two per cent of payroll for companies with payrolls in excess of $600,000. Three other provinces impose a similar tax; Quebec (2.7 per cent to 4.3 per cent); Manitoba (2.2 per cent to 4.3 per cent) and Ontario (two per cent). In the case of Ontario, the tax is called an "Employer Health Tax".

B.C. and Alberta do not have payroll taxes but they collect "Health Insurance Premiums". Annual premiums in the case of B.C. total $864 for a single person and $1,728 for a family. In the case of Alberta the premiums are $528 and $1,058, respectively.

The general trends in the type of taxation measures implemented in Canada recently, as well as the competitive pressures are evident from Exhibit III which provides a brief synopsis of the major revenue measures in the 2002 provincial budgets:

EXHIBIT III

TRENDS IN PROVINCIAL REVENUE MEASURES: FY02/03

Newfoundland and Labrador deferred the final stage of its three-year PIT reduction and raised tobacco taxes by $5/carton.

P.E.I. hiked tobacco taxes by $5/carton and its gasoline tax by one cent/litre.

Nova Scotia extended its Large Corporations Capital Tax from March 2002 to March 2004, increased fuel taxes by two cents/litre and tobacco taxes by $5/carton. Higher fees and user charges will raise an additional $26.7 million.

New Brunswick widened its low-income PIT reduction for 2002 and 2003. In July 2002 and January 2003, the general CIT rate will fall from 16 per cent to 14.5 per cent to 13 per cent, and for small business, the rate will drop from 4.0 per cent to 3.5 per cent to 3.0 per cent as the threshold rises from $300,000 to $350,000 to $400,000. Tobacco taxes rose $5/carton in June.

Quebec's November Budget indexed social assistance for 2002 and enhanced tax assistance for resource regions and e-commerce. From 2003 to 2007, its two corporate capital taxes will be roughly halved. Tobacco taxes jumped by $2.50/carton. The March update expanded aid for biotech and enriched low-income/family tax credits.

Ontario deferred planned PIT, general and manufacturing CIT and property tax cuts from 2003 to 2004. For small business, the scheduled tax rate cut from six per cent to 5.5 per cent and the higher ceiling will proceed next year and low-income PIT relief was enriched. Tobacco taxes were raised $5/carton.

Manitoba lifted tobacco taxes by $9.80/carton and eliminated the Learning Tax Credit. However, it increased PIT credits by three per cent for 2002 and lowered the education property tax by 10 per cent. The Equity Tax Credit was extended three years, a Mineral Exploration Tax Credit was introduced and scheduled PIT/CIT cuts will proceed.

Saskatchewan hiked liquor taxes from seven per cent to 10 per cent and tobacco taxes by $14.80/carton. Planned PIT cuts will go ahead in 2002 and 2003 with indexation in 2004. The corporate capital tax ceiling was raised and the 15 per cent fuel tax on ethanol sold in blended fuel was eliminated.

Alberta uncapped school property taxes and raised tobacco taxes $18/carton and medical insurance premiums 30 per cent. CIT cuts from April 1, 2002, were scaled back – the general rate fell from 13.5 per cent to 13 per cent and the small business rate fell from five per cent to 4.5 per cent alongside a higher threshold.

B.C. lifted tobacco taxes $8/carton, medical insurance premiums 50 per cent, and the sales tax 0.5 per cent to 7.5 per cent. This created an offset of roughly $750 million to the more than $2.1 billion of tax relief from tax cuts announced in 2001.

Source: Extracted from "Scotia Bank Provincial Forecast Update, September 2002". This report was prepared by Scotia Economics as a resource for the clients of Scotiabank and Scotia Capital. While the information is from sources believed reliable, neither the information nor the forecast shall be taken as a representation for which The Bank of Nova Scotia or Scotia Capital Inc. or any of their employees incur any responsibility.

Comparative Fiscal Capacity

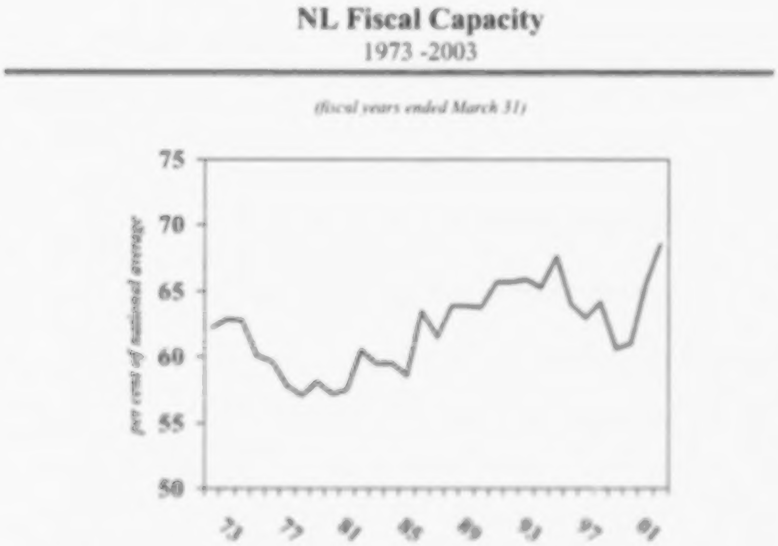
The term "fiscal capacity" is commonly used in evaluating the revenue generating capability of a particular province compared to other provinces or the national average:

> Fiscal capacity matters to governments because this measures the ability of a province, relative to other provinces, to generate the revenues necessary to fund the full range of programs and services we deliver, as well as provide capital infrastructure and service provincial debt.[26]

For decades, the fiscal capacity of Newfoundland and Labrador has generally been ranked the lowest of Canadian provinces – a dubious distinction which, in a few years, it has traded with Prince Edward Island in exchange for second last place.

Historically, over the past 30 years, this province's relative fiscal capacity has generally moved in the range of 57 per cent to 66 per cent of the national average. It hit 67.6 per cent in 1995-96 during the peak of Hibernia construction. It subsequently dropped back to 63.0 per cent in 1997-98 and 60.6 per cent in 1999-00. Most recently it has improved and in the February 2003 estimates of the Government of Canada it was at its highest point ever – 68.5 per cent – driven by the nation leading economic growth in 2002. The historic trend is illustrated in Chart 2-6:

Chart 2-6



Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, February 2003.

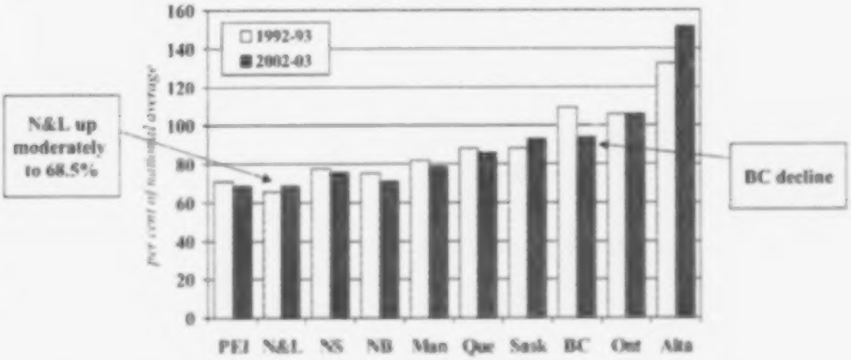
As Chart 2-6 indicates, there has been a distinct upturn in the last two years.

A comparison with the trends in fiscal capacity of all provinces over the last 10 years indicates an improvement in Newfoundland and Labrador's relative position from 65.7 per cent to 68.5 per cent:

Chart 2-7

Provincial Fiscal Capacity Comparison

1992-93 vs. 2002-03 projected



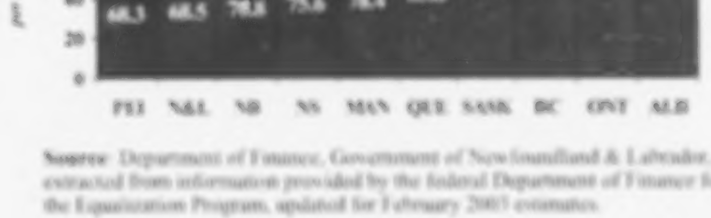
Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

While Alberta continued to improve and Ontario was steady, the most pronounced change occurred in British Columbia. B.C. declined from a fiscal capacity of 109.4 per cent in 1992-93 to 93.8 per cent this year – 6.2 per cent below the national average. The current ranking showing the percentage of fiscal capacity is illustrated in Chart 2-8:

Chart 2-8

Provincial Fiscal Capacity (percentage)

For year ended March 31, 2003



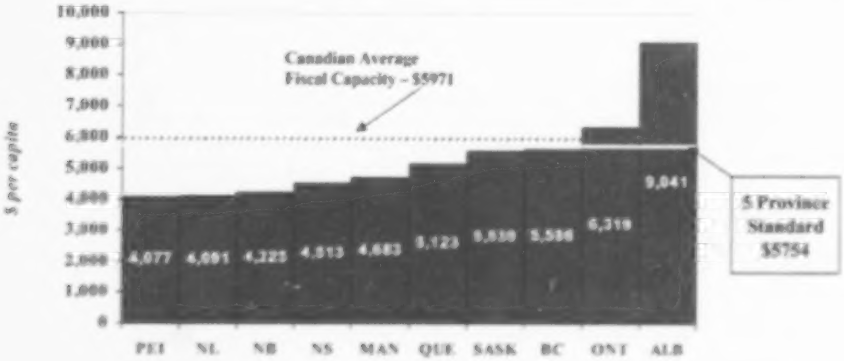
Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

In dollar terms, the February 2003 estimate of Newfoundland and Labrador's fiscal capacity is $4,091 per capita for 2002-03, compared with the national average of $5,971 per capita. The per capita fiscal capacity of the provinces is illustrated in Chart 2-9:

Chart 2-9

Provincial Fiscal Capacity (per capita)

For the year ended March 31, 2003



Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

Under the equalization formula, Newfoundland and Labrador (and others) receive equalization transfer payments on a per capita basis to bring it up to a five-province standard level. In 2002-03 this standard is now estimated (February 2003 estimates) at $5,754 per capita -- 96.4 per cent of the Canadian average. There is a strong view held by most provinces and recently supported by the report of the Standing Senate Committee on National Finance in March of 2002, that the basis of the formula be moved to the national average. In many respects the five-province standard is not consistent with the stated objectives of the equalization program. Such a change would likely increase Newfoundland and Labrador's annual equalization entitlement by in the order of $110 million to $120 million based on the 2002-03 estimates. *It is recommended that the Royal Commission also support the return to the 10 province standard.*

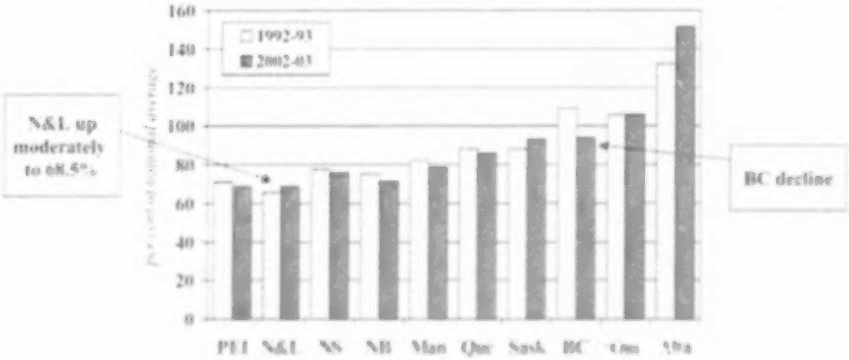
With the offshore petroleum developments and surge in GDP in recent years, and Newfoundland and Labrador's relative fiscal capacity has begun to increase but it still remains at close to the bottom of the ranking of Canadian provinces, just marginally above P.E.I.

It is expected that the ongoing increase in resource revenues will result in this province surpassing 70 per cent of the Canadian average fiscal capacity in the current fiscal year.

Chart 2-7

Provincial Fiscal Capacity Comparison

1992-93 vs. 2002-03 projected



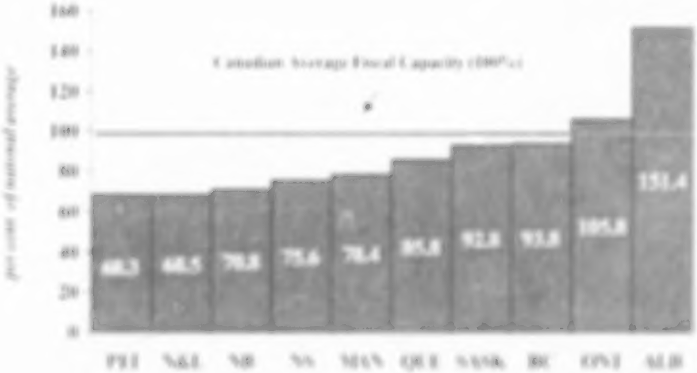
Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

While Alberta continued to improve and Ontario was steady, the most pronounced change occurred in British Columbia. B.C. declined from a fiscal capacity of 109.4 per cent in 1992-93 to 93.8 per cent this year – 6.2 per cent below the national average. The current ranking showing the percentage of fiscal capacity is illustrated in Chart 2-8:

Chart 2-8

Provincial Fiscal Capacity (percentage)

For year ended March 31, 2003

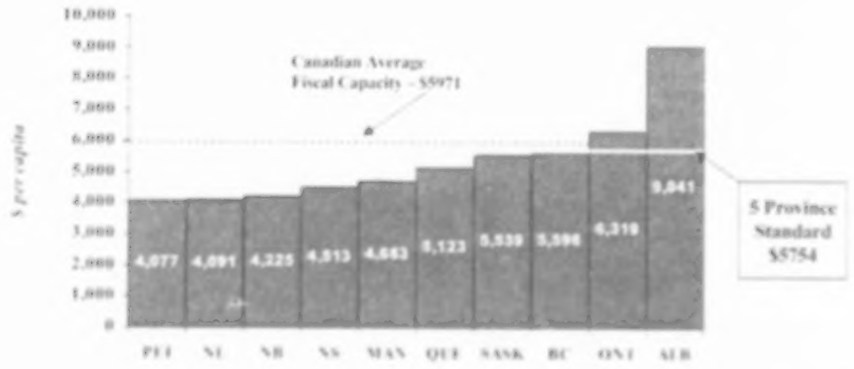


Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

In dollar terms, the February 2003 estimate of Newfoundland and Labrador's fiscal capacity is $4,091 per capita for 2002-03, compared with the national average of $5,971 per capita. The per capita fiscal capacity of the provinces is illustrated in Chart 2-9:

Chart 2-9

Provincial Fiscal Capacity (per capita)
For the year ended March 31, 2003



Source: Department of Finance, Government of Newfoundland & Labrador, extracted from information provided by the federal Department of Finance for the Equalization Program, updated for February 2003 estimates.

Under the equalization formula, Newfoundland and Labrador (and others) receive equalization transfer payments on a per capita basis to bring it up to a five-province standard level. In 2002-03 this standard is now estimated (February 2003 estimates) at $5,754 per capita -- 96.4 per cent of the Canadian average. There is a strong view held by most provinces and recently supported by the report of the Standing Senate Committee on National Finance in March of 2002, that the basis of the formula be moved to the national average. In many respects the five-province standard is not consistent with the stated objectives of the equalization program. Such a change would likely increase Newfoundland and Labrador's annual equalization entitlement by in the order of $110 million to $120 million based on the 2002-03 estimates. *It is recommended that the Royal Commission also support the return to the 10 province standard.*

With the offshore petroleum developments and surge in GDP in recent years, and Newfoundland and Labrador's relative fiscal capacity has begun to increase but it still remains at close to the bottom of the ranking of Canadian provinces, just marginally above P.E.I.

It is expected that the ongoing increase in resource revenues will result in this province surpassing 70 per cent of the Canadian average fiscal capacity in the current fiscal year.

Expenditure Comparison

Overall Provincial Government Expeıditures

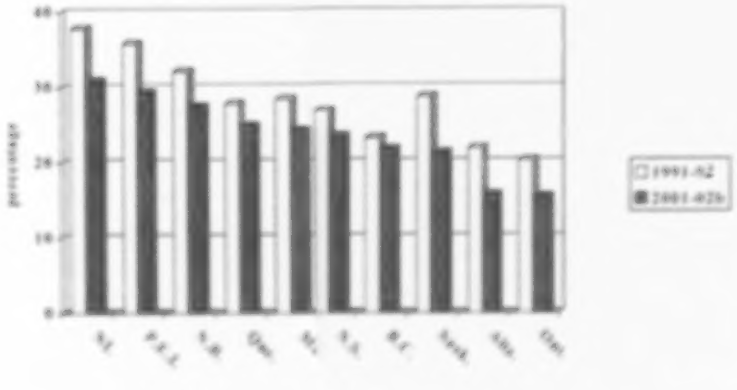
Annual provincial government expendiures in Newfoundland and Labrador totaled over $4.2 billion in 2001-02 which was equivalnt to 30.9 per cent of GDP, down from 37.8 per cent in 1991-92. Nevertheless, relative to GDP, government expenditures in this province rank with the highest of all provinces (the recentstrong growth in GDP in this province may have altered the order somewhat).

Chart 2-10

Provincial Goverment Expenditures to GDP

Expenditureas a percentage of GDP

(for yars ended March 31)



Source: Statistics Canada , Provicial Government Revenue and Expenditure – Estimates and actual datCANSIM II table 385-0002.

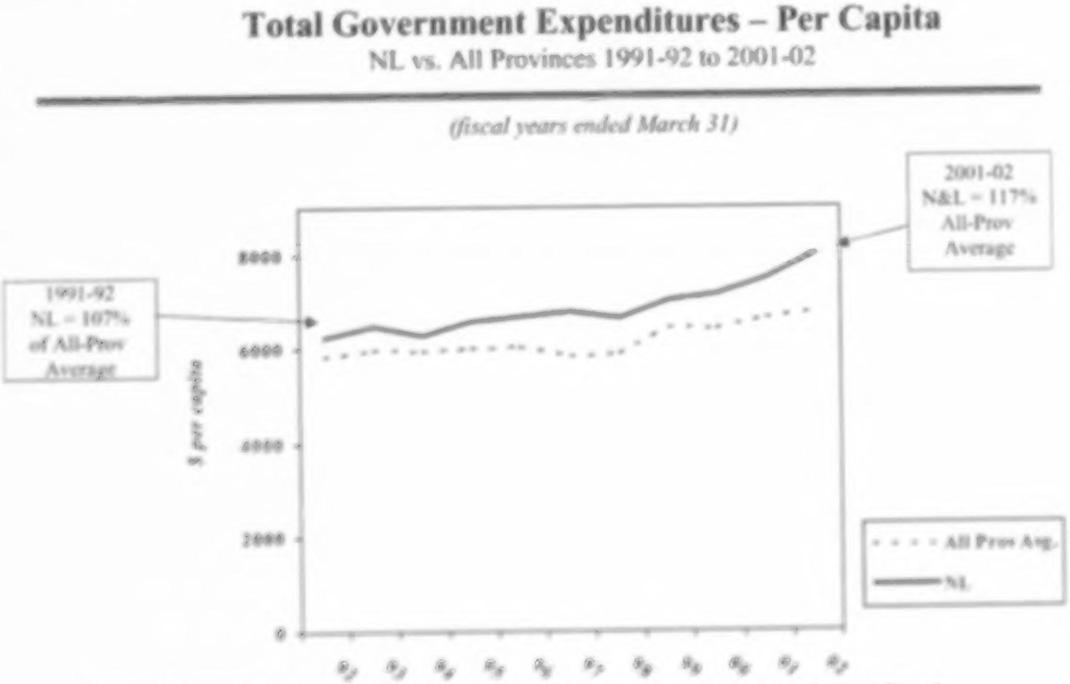
This ratio reflects the interaction of a nmber of factors. Firstly, it is an indication of a proportionately high level of provincial govrnment expenditures. Secondly, it also reflects the relative size of the economy – Alberta anks lowest on this ratio due to its significant GDP relative to other provinces – Newfoudland and Labrador on the other hand has a proportionately small GDP. Thirdly, and f: less obviously, it reflects different financial structures in different provincial jurisdictions As the analysis will subsequently illustrate, this is particularly the case in education and heah care funding where local taxation and private funding play a greater role in some provinces

In the period from 1991-92 to 2001-02 tal government expenditures in Newfoundland and Labrador increased by 17.2 per cent, sbstantially less than the all-province average growth of 28.9 per cent. However, in that sae period, the population of Newfoundland and Labrador decreased by 8.3 per cent, the largst decline of any province, while the aggregate population of the country increased by 10.7 pr cent. (These per capita calculations are based on Statistics Canada population estimates issued in 2002 which may be revised downward for Newfoundland and Labrador based on the latest census data.)

It is important, therefore, to put these expenditure patterns in perspective with population trends. On a per capita basis, provincial government expenditures in Newfoundland and Labrador increased by 27.7 per cent in the 10-year period, which actually outpaced the 16.4 per cent increase in the all-province average.

As Chart 2-11 illustrates, this province's per capita expenditures exceeded the national average by approximately 7 per cent in 1991-92 but by 2001-02, the gap had widened to more than 17 per cent above the national average:

Chart 2-11



Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

Major Expenditure Components

Any analysis of provincial government expenditures in Canada clearly indicates a high concentration of spending in the social programs. There is considerable variation in the nature of individual programs, the cost of delivery and the relative levels of priority assigned in the various provinces. However, on average: health, education and social services account for approximately two-thirds of overall government expenditures in all provinces.

Health Care Expenditure

In the mid-1990s health care moved to the number one expenditure component of the provincial budget in Newfoundland and Labrador. At that time, it surpassed education which had been the largest expenditure category throughout the 1980s. The rapid escalation in health care costs, combined with the impact of declining student enrollment account for the significant change in the relative weighing of budgetary allocations in Newfoundland and Labrador.

The Canadian Institute for Health Information indicates that health expenditures in Canada have grown by 30 per cent since 1997 in "real terms", significantly surpassing the estimated 20 per cent real growth in the in the national economy in the same period.

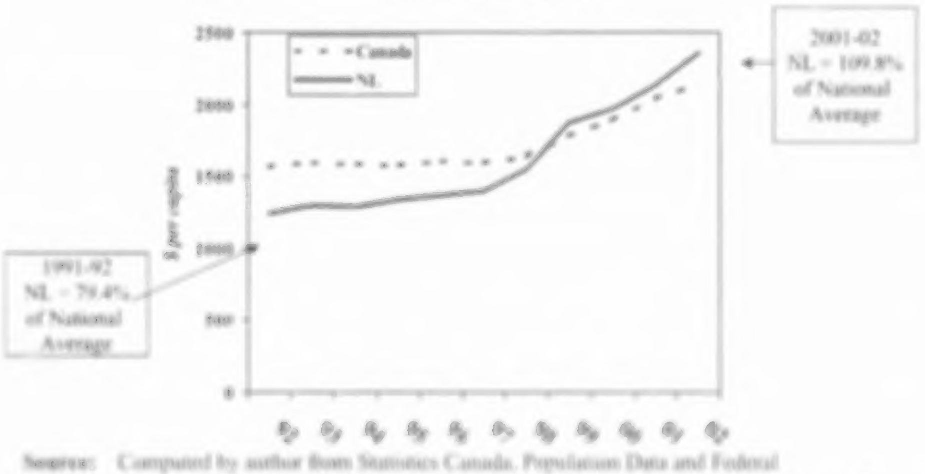
Provincial Government Health Expenditures

In 1991-92 provincial government spending on health care per capita in Newfoundland and Labrador was 20.6 per cent below the national average. However, by 1998-99 this province had surpassed the national average, and by 2001-02, it was 9.8 per cent above the national average:

Chart 2-12

Provincial Government Health Spending

NL vs. National Average 1991-92 to 2001-02



Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

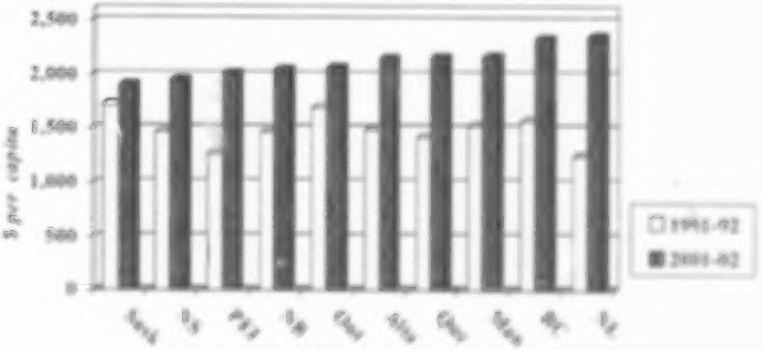
Of course all per capita comparisons over time are influenced by population changes – a major decline in this province and growth in most others.

Since 1991-92, Newfoundland and Labrador has moved from being the province with the lowest provincial government spending per capita on health care, to the highest in 2001-02, (marginally above British Columbia) as illustrated below:

Chart 2-13

Provincial Government Health Care Spending

Per capita expenditures 1991-92 & 2001-02



Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

The above analysis reflects provincial government expenditures only and does not include the private sector component.

The above data is derived from the federal Department of Finance and Statistics Canada. Other data sources use somewhat different basis of calculation, and while the order of various provinces differs, Newfoundland and Labrador still ranks highest. The latest report of the Canadian Institute for Health Information (CIHI) released on December 18, 2002 states:

> *In 2000, the latest year that age sex adjusted data is available, adjusted provincial government health spending per capita was highest in Newfoundland ($2,379) and Alberta ($2,242), followed by Manitoba ($2,196), British Columbia ($2,191), Ontario ($2,068), Saskatchewan ($1,915), Quebec ($1,906), New Brunswick ($1,890), Nova Scotia ($1,812), and Prince Edward Island ($1,793).*"

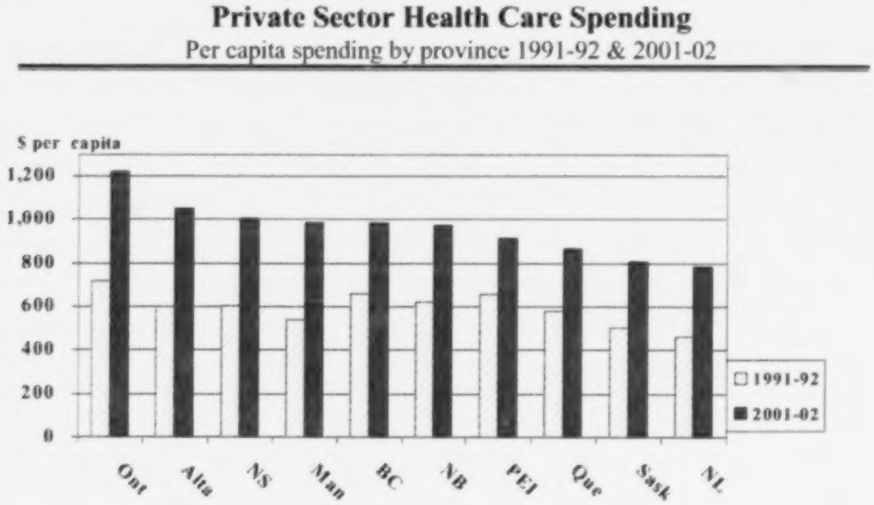
The CIHI notes that "expenditures per capita varies among the provinces and is much higher in the territories than in the provinces, reflecting the higher costs of servicing large geographic areas with relatively small populations." Similarly, the demographics of Newfoundland and Labrador is undoubtedly a factor in the explanation of why Newfoundland and Labrador costs are high on a relative basis.

Private Sector Health Expenditures

The CIHI provides an additional dimension to the provincial comparison through an analysis of private sector health expenditures. This analysis covers health care spending by households and private insurance firms.

Nationally, the private sector share of health expenditures amounts to just over $30 billion and accounts for 29-30 per cent of total expenditures on health care. Newfoundland and Labrador ranks last among the provinces in private sector spending on health at $786 per capita while Ontario ranks highest at $1,226 per capita:

Chart 2-14



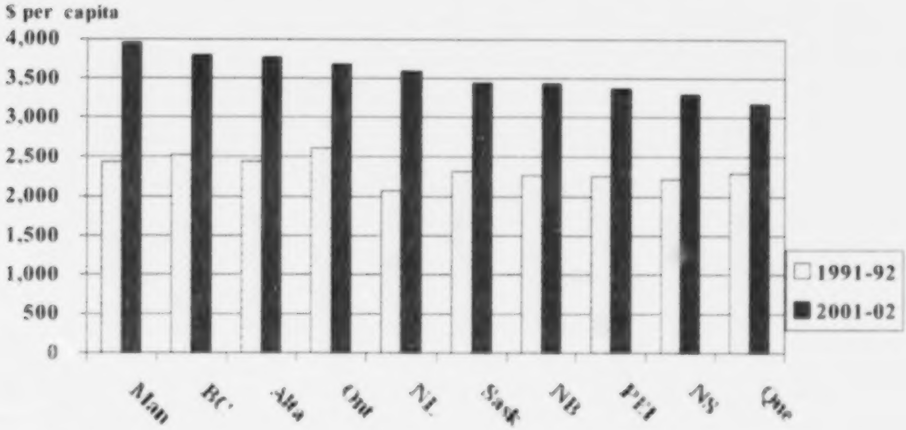
Source: National Health Expenditure Database, Health Expenditures by Source of Finance, 1975-2002, Canadian Institute for Health Information (CIHI).

Total Health Care Spending – Public and Private

On a combined basis, public and private spending, the CIHI analysis indicates that Manitoba leads all the provinces, in total expenditures on health at $3,955[28]. per capita, while Newfoundland and Labrador ranks fifth at $3,587 per capita. Quebec ranks tenth at $3,182 per capita as illustrated in Chart 2-15:

Chart 2-15

Total (public & private) Health Care Spending
Per capita spending by province 1991-92 & 2001-02

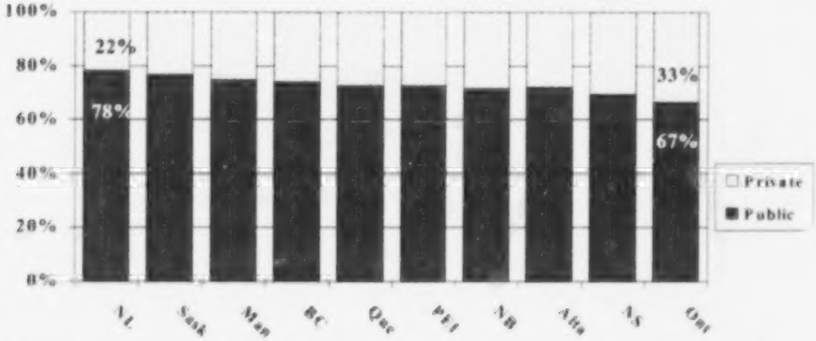


Source: National Health Expenditure Database, Health Expenditures by Source of Finance, 1975-2002, Canadian Institute for Health Information (CIHI).

Despite the highest public sector expenditures on health per capita, the lowest private sector component places overall per capita expenditures on health in Newfoundland and Labrador roughly in the middle of the range for all provinces. Chart 2-16 which follows illustrates the variation in the split of public/private sector funding for health care across the country.

Chart 2-16

Sources of Health Care Financing
% Public Funding vs. % Private Funding (2002 forecast)



Source: Base data extracted from the National Health Expenditure Database, Health Expenditures by Source of Finance, 1975-2002, Canadian Institute for Health Information (CIHI).

Education

In the decades following confederation, enrollment in primary and secondary education in Newfoundland and Labrador increased quite significantly. From 1952-53 (the earliest year that statistics are readily available) up to the peak year of 1971-72, enrollment increased from 87,800 to 162,800, or 85 per cent. This growth in enrollment at the elementary and secondary levels coupled with increased emphasis on improved quality and access to post-secondary education resulted in education becoming the largest expenditure component in the provincial budget by the late 1960s – a ranking which it held until the mid-1990s.

Elementary and primary student enrollment in the province has now been in decline for three decades. From 1971-72, to 2001-02 it dropped by almost 76,000 down to 86,900 – a decline of 47 per cent from the peak level of the early '70s. This enrollment decline, coupled with the significant escalation in health care costs, explain why education dropped to the number two rank in the budgetary spending program in the mid-90s.

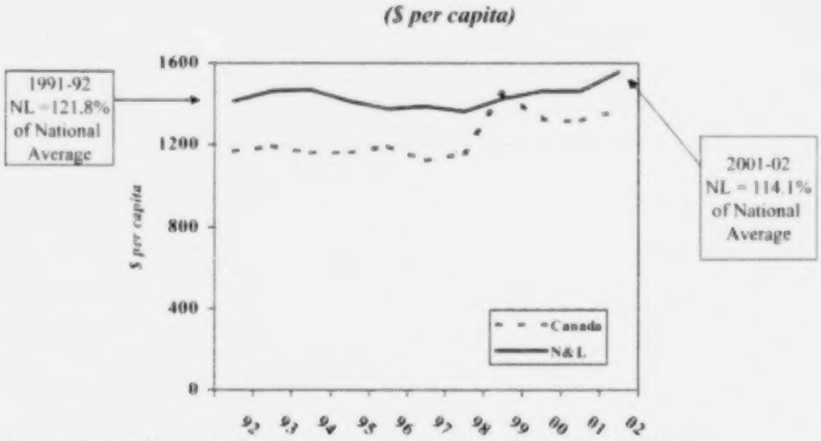
Provincial Government Education Expenditures

Newfoundland and Labrador's per capita government expenditures on education have generally exceeded the Canadian average for several years. At $1,559 per capita in 2001-02, this province exceeded the Canadian average by 14.1 per cent as illustrated in Chart 2-17 below:

Chart 2-17

Provincial Government Education Spending

NL vs. All-provinces average 1991-92 to 2001-2002



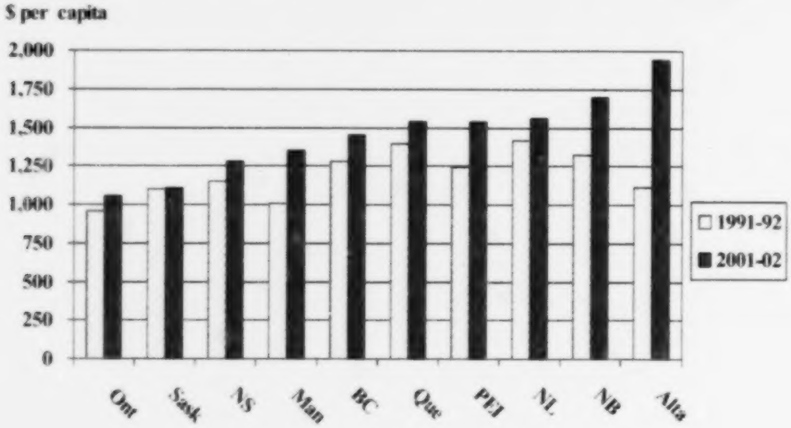
Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

In 2001-02 Newfoundland and Labrador ranked third highest in per capita education spending by provincial governments, behind New Brunswick and Alberta:

Chart 2-18

Provincial Government Education Spending

Per capita expenditures 1991-92 & 2001-02



Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador

Varying Sources of Education Funding

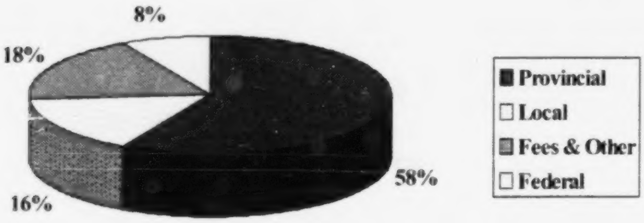
As with health, a narrow analysis of provincial government spending on education does not tell the full story. The funding arrangements for education vary significantly among provinces. Many provinces, including Ontario, Saskatchewan and Manitoba, augment the funding for education through local governments and local school taxation authorities. In this regard, Newfoundland and Labrador, New Brunswick and P.E.I. are the only provinces which do not augment provincial government expenditures with funding from local government sources. In all provinces there is also a component of funding provided by fees and other sources, as well as direct federal funding for certain programs.

On average, across all provinces, only 58 per cent of the funding for education comes directly from provincial governments as illustrated in Chart 2-19:

Chart 2-19

Sources of Education Financing - All of Canada
Provincial, Local and Federal Governments, Fees & Other Sources

1999-2000



Source: Statistics Canada, CANSIM II, tables 478-0004, 478-0005, 478-0007 and 478-0015 Expenditures on Education, Provinces and Territories

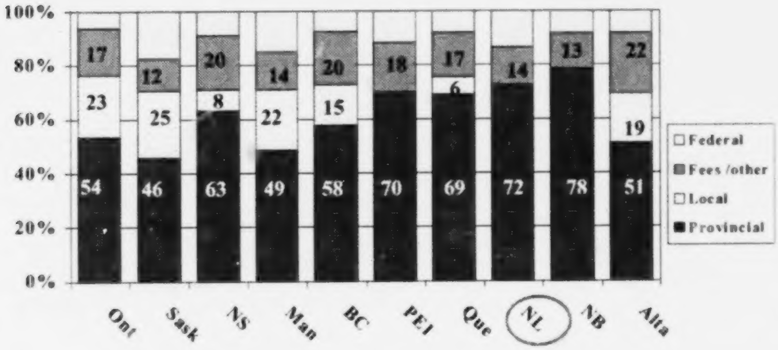
According to Statistics Canada, in 1999-2000, 72.3 per cent of the total expenditures for education in Newfoundland and Labrador were provided directly by the province. There was no local government funding and direct federal funding through various programs accounted for 13.3 per cent while fees and other sources provided the remaining 14.4 per cent.

In contrast, Ontario, which by the earlier analysis had the lowest provincial government expenditure per capita, only sourced 54 per cent of its educational financing from the province, a further 23 per cent was provided by local governments. The variation in the sources of education funding across the country is illustrated in Chart 2-20 below (the provinces are presented in the same order as the chart on provincial government funding per capita):

Chart 2-20

Sources of Education Financing by Province

1999-2000 Percentage Split by Source



Source: Statistics Canada, CANSIM II, tables 478-0004, 478-0005, 478-0007 and 478-0015 Expenditures on Education, Provinces and Territories.

While the earlier analysis of provincial government spending on education indicated that Ontario was by far the lowest of all provinces ($1,056 per capita) in 2001-02, that funding was augmented by over 40 per cent through local funding sources (assuming a continuation of the levels provided in 1999-2000). Accordingly, provincial and local sources would have provided in the order of $1,500 per capita in Ontario in 2001-02 to a highly urbanized population which was in line with the $1,559 per capita provided in Newfoundland with its highly dispersed rural population base.

Social Services

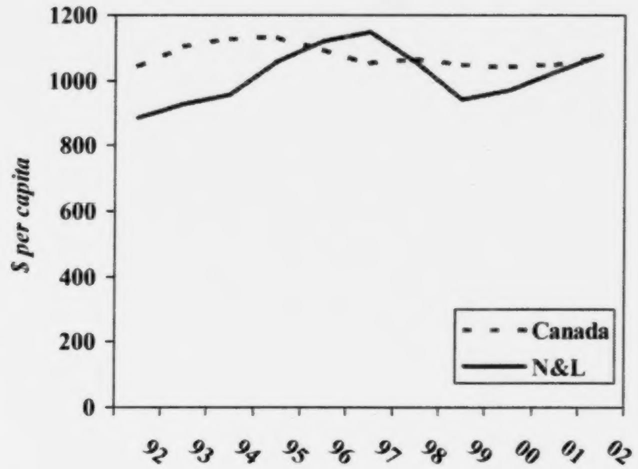
In 1991-92 Newfoundland and Labrador's per capita expenditures on social services were more than 15 per cent below the national average. However, this relative position has changed over the past decade. In the mid '90s, per capita spending in Newfoundland and Labrador actually exceeded the national average possibly due to the far reaching impacts of the closure of the groundfish fishery. By 2001-02 the rate of expenditure in this province was virtually in line with the Canadian average:

Chart 2-21

Provincial Government Social Services Spending

NL vs the National Average 1991-92 to 2001-02

(fiscal years ended March 31)

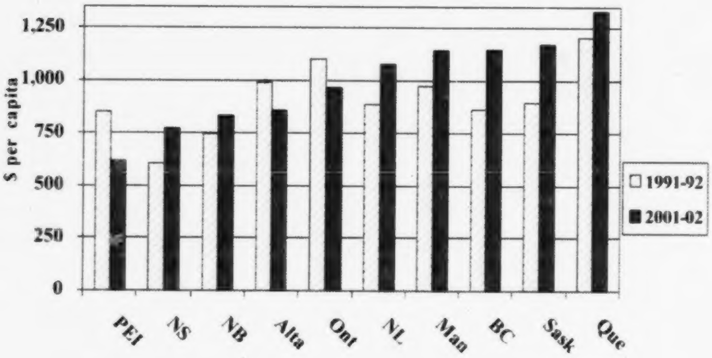


Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

On a relative basis compared to the other provinces, Newfoundland and Labrador ranks close to the middle in per capita spending. (The population decline in Newfoundland and Labrador may well have influenced these statistics in various ways.) The statistics indicate that Prince Edward Island recorded the lowest per capita spending in 2001-02 while Quebec had the highest level of expenditures in this sector:

Chart 2-22

Comparative Social Services Spending
Per Capita 1991-92 & 2001-02



Source: Computed by author from Statistics Canada, Population Data and Federal Fiscal Arrangements data supplied by the Department of Finance of the Province of Newfoundland and Labrador.

Debt Service Costs

An analysis of debt service costs adds further dimension to the relative significance of the debt burden and places the ongoing expenditure requirements to service the debt in context with government's program spending requirements.

At the time of union with Canada in 1949, Newfoundland and Labrador had no debt and no debt service costs. Over the years as the debt accumulated, the related debt service cost, or interest burden, increased accordingly. By 1960, 3.5 per cent of government's revenues were dedicated to cover debt service costs. By 1970 and 1980, the debt service ratio had increased to 9 per cent and 13.7 per cent respectively. The cost escalation in the interest burden was related to the mounting level of debt, as well as the run up in interest rates. Spiraling interest rates of the early 1980s combined with significant deficits to push the debt service ratio to the 17-18 per cent range by the late 1980s.

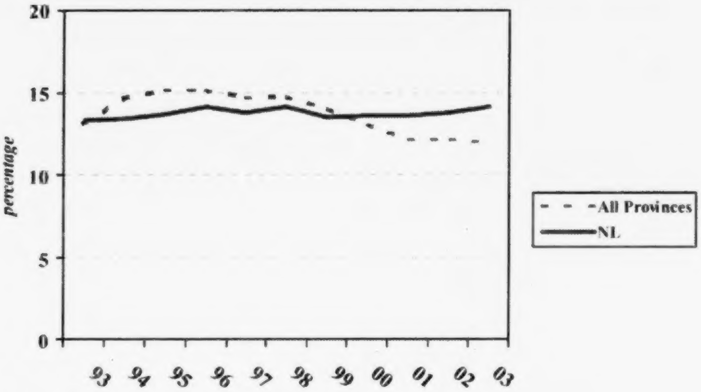
The subsequent decline in interest rates and the moderation in the deficit through the mid-nineties combined to bring the debt service ratio down to its current range of 14 to 15 per cent. In the 2003 budget, debt expenses of a current account nature total just over $550 million, or 14.1 per cent of current and related revenues. When expenses of a capital nature are added ($38 million) combined debt expenses for the coming year amount to approximately $590 million. This equates to 14.6 per cent of the overall revenue budget for the coming year.

The recent trend in debt service costs is illustrated by the ratio of "net interest costs to total revenues" as calculated by the Dominion Bond Rating Service and illustrated in Chart 2-23:

Chart 2-23

Ratio of Net Interest Costs to Total Revenues

NL vs. All provinces 1992-93 to 2002-03



Source: Dominion Bond Rating Service, The Canadian and Provincial Governments – 2001 Overview dated November 2001 and 2002 Overview, dated January 2003.

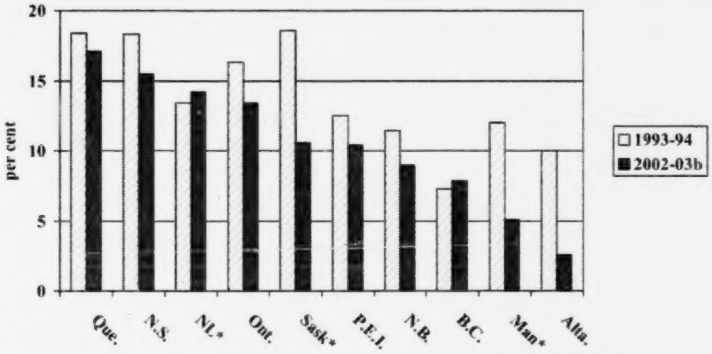
This shows Newfoundland and Labrador's average of 14.2 per cent in 2002-03 is trending above the all-province average of 12.1 per cent. This chart presents this province's position according to its "cash" basis of budgeting. On an "accrual" basis, which is more in line with the other provinces, DBRS estimated the ratio to be 20.8 per cent in 2000-01 (the most recent data available).

Chart 2-24 provides a provincial comparison of interest costs to total revenues. This chart indicates that Quebec is in the worst position of the provinces with the highest ratio of 17.1 per cent, Nova Scotia is next at 15.5 per cent, while Newfoundland and Labrador is the third highest.

Chart 2-24

Ratio of Interest Cost to Total Revenues

Provincial Comparison 1993-94 & 2002-03 Budget



**Excludes interest charges accrued on unfunded pension liabilities for N&L, Manitoba and Saskatchewan*

Source: Dominion Bond Rating Service, The Canadian Federal and Provincial Governments—2002 Overview, dated January 2003.

Chart 2-24 also indicates that only Newfoundland and Labrador and British Columbia recorded an increase in this ratio since 1993-94 – all other provinces reflected declines – in some cases quite significant. While debt levels have increased in most provinces, low interest rates have played a large part in bringing down these ratios. Other provinces generally have a higher level of floating rate debt than does Newfoundland and Labrador and therefore they have benefited more from the rate declines.

It is significant to note that Newfoundland and Labrador's unfunded pension obligations of $3.4 billion carry an annual implicit interest cost in the order of $240 million. This clouds a fair comparison with some of the provinces which are fully funded or have minimal unfunded liabilities (e.g. Nova Scotia and New Brunswick).

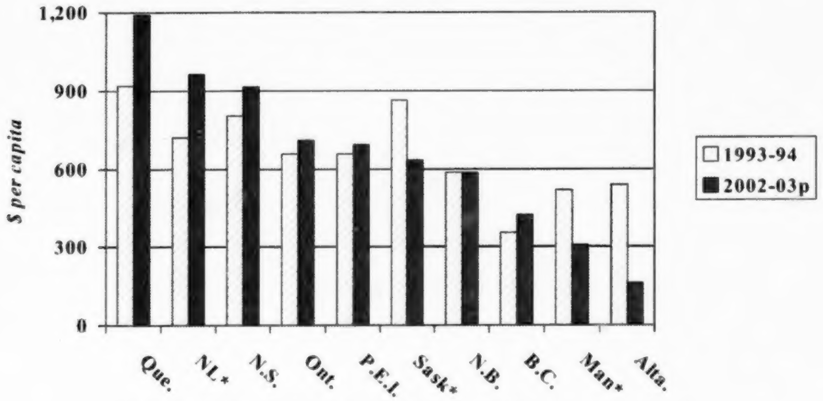
On a per capita basis, (exclusive of pension liability interest) Newfoundland and Labrador's interest costs are the second highest as illustrated in Chart 2-25.

Chart 2-25

Interest Cost – Per Capita

Provincial Comparison 1993-94 & 2002-03 Budget

(for years ended March 31)



Excludes interest accrued on unfunded pension liabilities

Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments, dated November 2001, and Jan 2003 extracted from source and extrapolated as required by author.

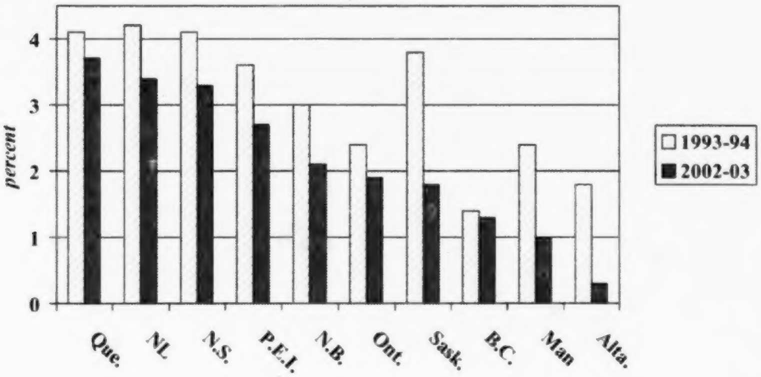
In the overall context of the economy, a comparison of the annual interest cost to GDP again shows Newfoundland and Labrador's relative interest burden is the second highest in Canada.

Chart 2-26

Interest Cost to GDP

Provincial Comparison 1993-94 versus 2002-03 Budget

(for years ended March 31)



Source: Dominion Bond Rating Service, the Canadian Federal and Provincial Governments, dated November 2001, and Jan 2003. Data extracted from source and extrapolated as required by author.

The foregoing analysis deals with the interest obligations of the province on the funded debt of government. As was noted in the earlier examination of the provincial debt profile, Newfoundland and Labrador's ranking on debt-related indicators, becomes much less favourable when the weight of the unfunded pension liabilities is taken into account.

Economic Comparisons

Has Newfoundland and Labrador "closed the gap" in its relative economic ranking with other provinces? Clearly, gains have been made in some areas in respect of growth from the base position but, other provinces have progressed as well. Accordingly, on a relative basis, a substantial degree of economic disparity remains and is quite evident in inter-provincial comparisons of key economic indicators. The following review assesses the trends over the last 20 years.

Personal Income

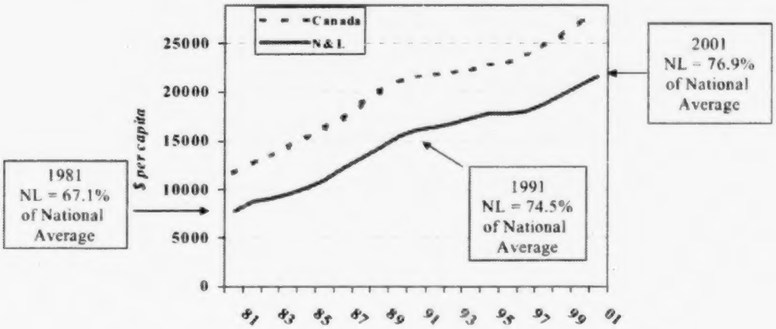
Newfoundland and Labrador still ranks last among the provinces in terms of per capita personal income with average per capita income of $21,588 in 2001 – 23.1 per cent, or approximately $6,500 below the national average.

Nonetheless some progress has been recorded in the last 20 years. In 1981, this province's per capita income was just 67.1 per cent of the national average. By 1991, it had climbed to

74.5 per cent. Accordingly, the personal income gap had been reduced by 7.4 per cent. There was additional progress in the next 10 years, but it was less pronounced with a further 2.4 per cent reduction in the province's income disparity relative to the national average:

Chart 2-27

Personal Income – Per Capita
NL vs. National Average 1981 - 2001



1981
NL = 67.1%
of National
Average

1991
NL = 74.5%
of National
Average

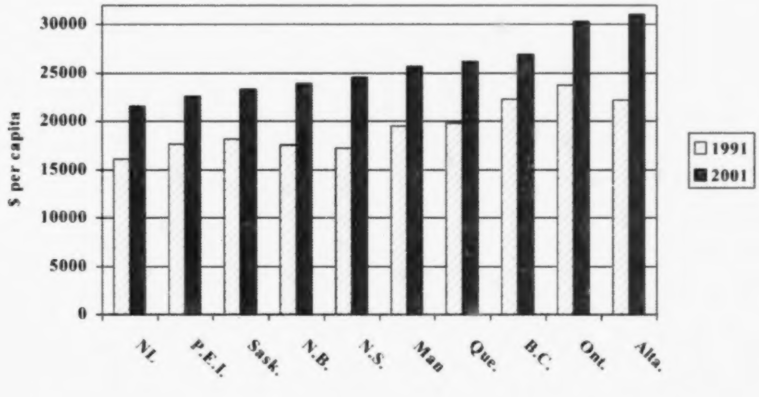
2001
NL = 76.9%
of National
Average

Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213.

The rate of progress has varied relative to the income level of different provinces over the past 20 years, but this province's overall last place ranking has not changed:

Chart 2-28

Personal Income –Per Capita
Provincial Comparison 1991 and 2001



Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213.

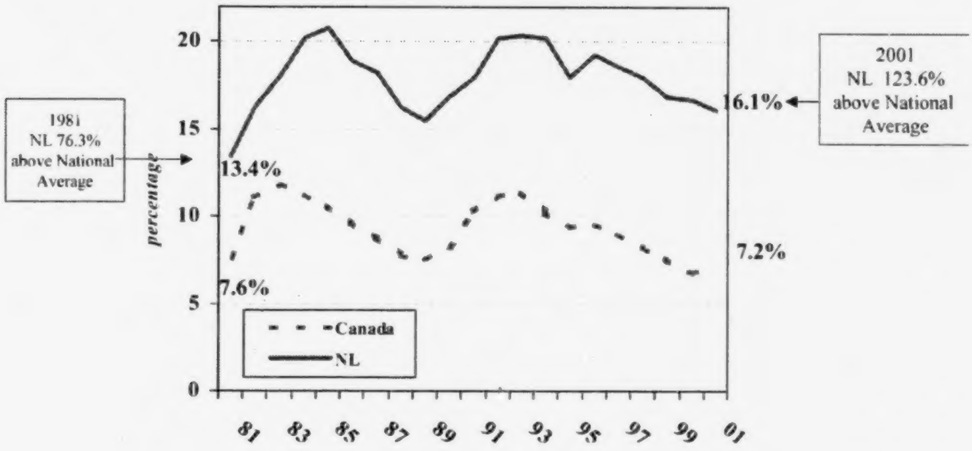
Unemployment

The unemployment rate in Newfoundland and Labrador remains the highest of any Canadian province. It averaged 16.1 per cent in 2001, substantially above the next highest province, Prince Edward Island at 11.9 per cent, and more than doubled the Canadian average of 7.2 per cent in that year. Furthermore, the relative disparity has not been reduced in the last 20 years as illustrated in Chart 2-29 below:

Chart 2-29

Unemployment Rate

NL vs. National Average 1981 -2001



Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213

Note: ***In December 2002 the National rate was 7.5% and the NL rate was 18.5%***

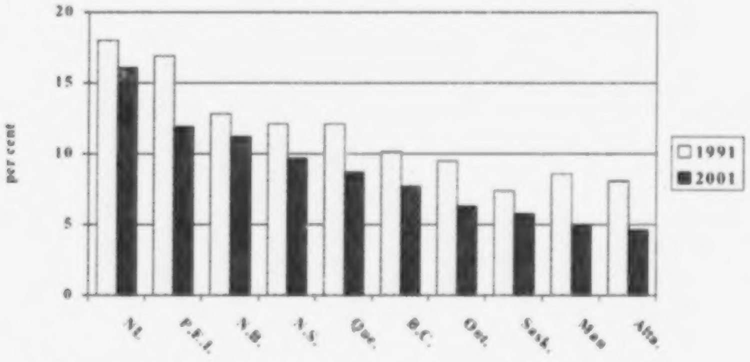
In 1981 and 1991 the spread between the unemployment rate in Newfoundland and Labrador and the national average was 76.3 per cent and 74.8 per cent, respectively – by 2001 the gap had increased to 123.6 per cent. (In 2002, the national rate averaged 7.7 per cent and this province's rate was 16.9 per cent.)

On the positive side, it is important to note that the actual number of people employed in the province has increased, notwithstanding the decline in population. In 1981, there were 186,000 people employed, while in 2001 the number employed had increased (13.4 per cent) to 211,000, despite the population decline. The increase in the employment rate is attributable to an increased participation rate which moved from 53.5 per cent in 1981 to 57.3 per cent in 2001. Even at this level, Newfoundland and Labrador remains the lowest in Canada and compares with the national average participation rate of 66.0 per cent. (Further gains were made in 2002 when the level of employment in Newfoundland and Labrador increased by 3,000 to 214,000. Employment gains were recorded across Canada with an overall increase of 560,000 jobs in 2002.)

A comparison with the trends in the unemployment rates in other provinces again highlights the extent of this province's last place ranking in employment:

Chart 2-30

Unemployment Rate
Provincial Comparison 1991-2001



Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213

As the above chart indicates, in recent years practically every province has made more progress than Newfoundland and Labrador in reducing unemployment rates from the recessionary highs of the early 1990s. The rates in Ontario, Quebec and Manitoba came down more than three percentage points in the last 10 years while the P.E.I. rate dropped five points. The rate in Newfoundland and Labrador dropped less than two percentage points.

GDP - Per Capita

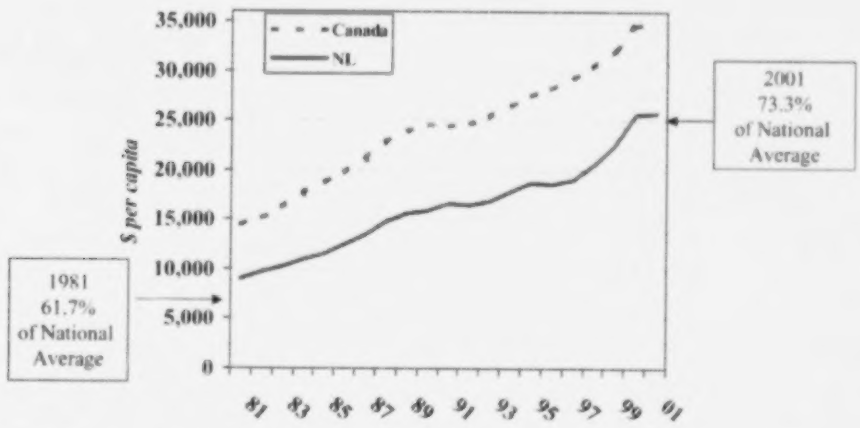
Over the 20-year period from 1981 to 2001, the accumulated growth in the province's Gross Domestic Product (GDP), at market prices, totaled 167 per cent – from $5.1 billion to $13.8 billion. In the same period, the growth in Canada's national GDP outpaced this province's performance with an accumulated growth of 203 per cent.

The trends in GDP per capita indicate that Newfoundland and Labrador has advanced from 61.7 per cent of the national average in 1981 to 73.3 per cent in 2001. Again, population trends are a factor in this indicator. The national population increased by 25.2 per cent (from 24.8 million to 31.1 million in the period), while this province's population declined by 7.7 per cent in the same period (from 575,000 to 534,000).

Chart 2-31

GDP – Per Capita

NL vs. National Average 1981 - 2001



1981
61.7%
of National
Average

2001
73.3%
of National
Average

Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213

The GDP gap was reduced by 11.6 per cent from 1981 to 2001, with over half of the gain realized by 1991. While the gap was actually widening again in 1996, the commencement of oil production in late 1997 was largely instrumental in restoring the favorable trend.

Population Impact on GDP per Capita

The changes in population have had a material impact on the per capita GDP calculations for both the province and the national average as illustrated in the following table for the 10-year period 1991-2001:

Table 2-8

GDP at Market Prices and Per Capita
Newfoundland and Labrador vs. Canada

GDP at Market Prices:

	1991	2001 ($ Billion)	Increase
Canada	685.4	1,092.2	59.4 per cent
Newfoundland and Labrador	9.6	13.8	43.5 per cent

GDP per Capita:

	1991	2001	Increase
Canada	24,450	35,141	43.7 per cent
Newfoundland and Labrador	16,529	25,770	55.9 per cent

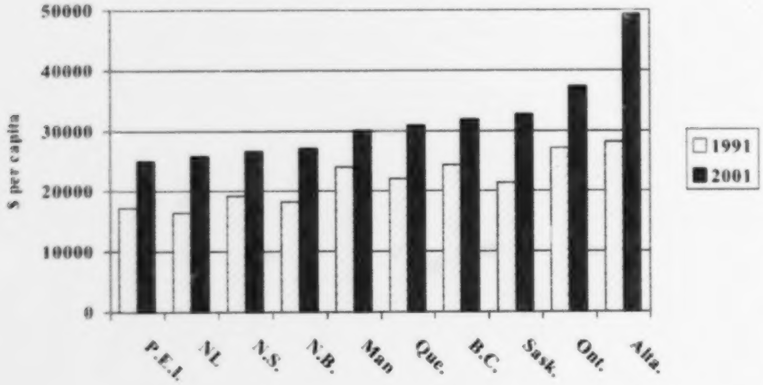
Table 2-8 shows the impact of the national population changes which transforms the 10-year growth in the aggregate value of the national economy from 59.4 per cent overall to a per capita growth of 43.7 per cent.

In the case of Newfoundland and Labrador, the population impact is almost reversed. While the aggregate value of the economy grew by 43.8 per cent, the reduced population base effectively increased the growth in per capita GDP to 55.9 per cent.

An inter-provincial comparison of GDP per capita indicates little change in the relative position of this province over the 20 years leading up to 2001. Newfoundland and Labrador remains in ninth position, marginally ahead of P.E.I.:

Chart 2-32

GDP – per Capita
Provincial Comparison 1991 & 2001



Source: Statistics Canada, Provincial Economic Accounts, Catalogue 13-213.

The strong GDP growth recently recorded by Newfoundland and Labrador may have produced an improvement in this province's ranking relative to the maritime provinces in 2002. (These statistics will be released later in 2003.)

GDP-Growth Trends

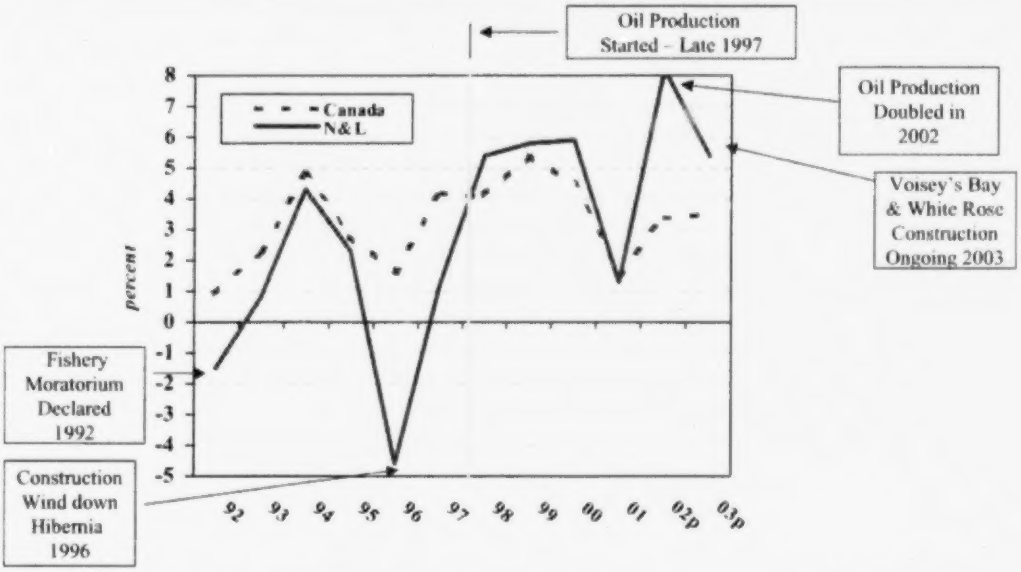
Various economic analyses have shown Newfoundland and Labrador leading the nation in "real" GDP growth in recent years. However, in assessing this province's economic performance, it is important to note: i) the relatively **low base** from which the growth is measured; ii) the high degree of **volatility** in recent years; and iii) the sizeable impact which the growth in **petroleum production** has had on these growth rates, and which is not necessarily representative of many aspects of the provincial economy.

A comparison of the yearly movements in real GDP highlights the volatility of the Newfoundland and Labrador economy relative to the Canadian economy:

Chart 2-33

Real GDP Growth – Volatility

NL vs . National GDP Growth – 1992 to 2003 projected



Oil Production Started - Late 1997

Oil Production Doubled in 2002

Voisey's Bay & White Rose Construction Ongoing 2003

Fishery Moratorium Declared 1992

Construction Wind down Hibernia 1996

Source: Statistics Canada, and Departments of Finance, Government of Newfoundland and Labrador and Government of Canada.

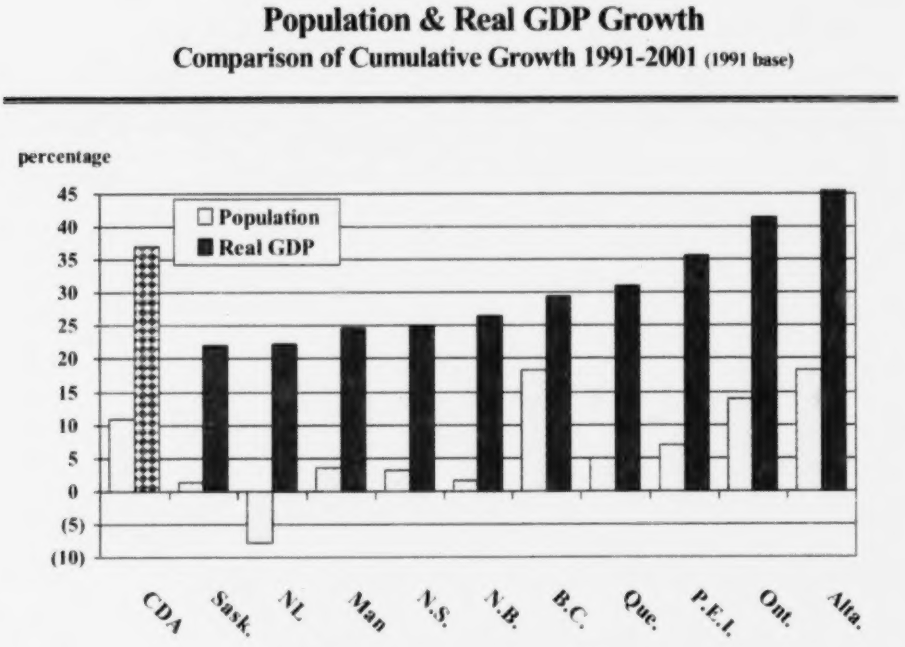
In the six years prior to 1998, the first full year of oil production, GDP growth in this province was below the national average. The recent boost in GDP value from oil production has been the key factor leading the pace of economic growth since 1998. With oil production in 2002 approximately double the 2001 output, it clearly was the main force driving last year's GDP growth (which ultimately totaled 8.2 per cent in real terms).

The significant increase in the GDP performance in recent years often overshadows the relatively weak economic base the province is building upon and the disappointing performance of the early to mid-nineties as the province adjusted to the collapse of the groundfish fishery.

Over the 10-year period from 1991 to 2001, the national economy grew by 37.1 per cent in real terms. In the same period Newfoundland and Labrador significantly lagged the national growth with accumulated real GDP growth of only 22.3 per cent – 14.8 per cent below the national GDP growth.

A further examination of Newfoundland and Labrador's relative performance over the last 10 years indicates this province ranked second from the bottom of all the provinces in cumulative economic growth from 1991 to 2001 (Saskatchewan was marginally lower):

Chart 2-34



Source: Statistics Canada, Government of Newfoundland and Labrador Department of Finance, Economics & Statistics Branch. Data extrapolated from source and extrapolated as required by author.

Chart 2-34 indicates, with the possible exception of British Columbia, the strongest rates of growth were generally recorded in the provinces with the strongest population growth. While Newfoundland and Labrador has recently recorded strong growth, it comes from a weak base and still has a long way to go. The economic growth challenge for this province is clearly compounded by the decline in population.

GDP Trends vs. Fiscal Trends

It is often assumed that strong economic growth as measured by GDP is synonymous with strong fiscal or budgetary performance. While this is true in some economies, it is not axiomatic. Favorable economic trends and industrial expansion can support improved fiscal results but the nature of the economic performance, the financial base and the fiscal framework are vitally important as well.

In recent years **Canada** has experienced favorable economic performance overall and is currently leading the G7 nations. The federal government has focused on a broad-based strategy to eliminate the deficit through expenditure restraint, revenue preservation, and the reduction of the debt. The huge federal deficits of the past have been eliminated. In 1993-94, the federal deficit totaled $42 billion, which amounted to 5.8 per cent of GDP. By 2000-

01 the position had steadily improved to a surplus of $18.1 million, or 1.6 per cent of GDP. National economic and fiscal trends are both running on a generally favourable trend and the Government of Canada is continuing to record surpluses.

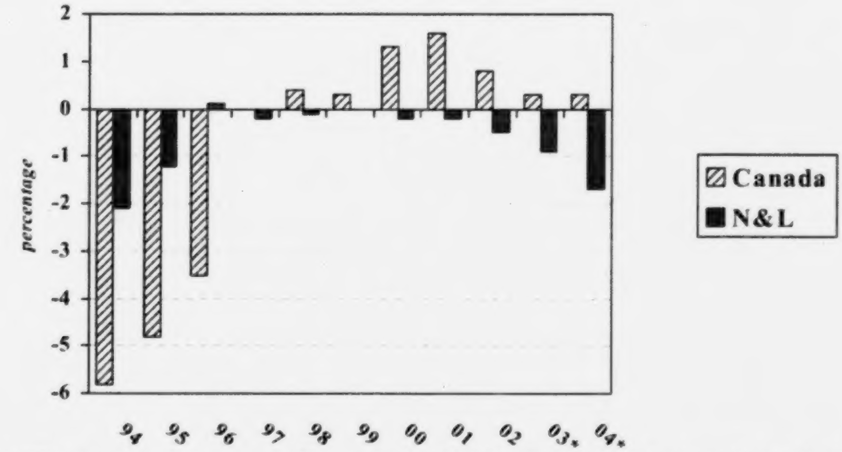
Newfoundland and Labrador started out on the same track as the Government of Canada in the early 1990s with a far reaching budgetary restraint program and, it made considerable fiscal progress through the early to mid-nineties.

Ironically, it had accomplished this when provincial GDP growth was consistently below the national average. Ironically as well, in the last three or four years as the relative GDP performance of the province has improved, budgetary deficit has been increasing. Chart 2-35 illustrates how the trend in the fiscal performance relative to GDP in Newfoundland and Labrador is moving in a different direction from that of the Government of Canada:

Chart 2-35

Trend in Surplus (Deficit) as a percentage of GDP

NL vs. Canada 193-94 to 2003-04



Source:TD Economics and Departments of Finance, Budget 2003 Newfoundland & Labrador and calculation by author.
Note: *NL in 2002-03 and 2003-04 reflects the "consolidated" cash deficit prior years are just the cash deficit.

A number of factors should be noted in relation to the provincial trend:

i) **Oil-driven GDP growth** does not produce a proportionate increase in overall net provincial revenues. The revenue impact is positive, but not to the extent that the GDP growth might imply.

ii) **Core revenue growth has been constrained** in recent years by the combination of reductions related to HST, PIT, out-migration and the population decline and federal restraint on transfer payments. In many respects it has taken strong growth in various provincial source revenues, driven by the recent pace of economic activity to lessen the impact of these factors.

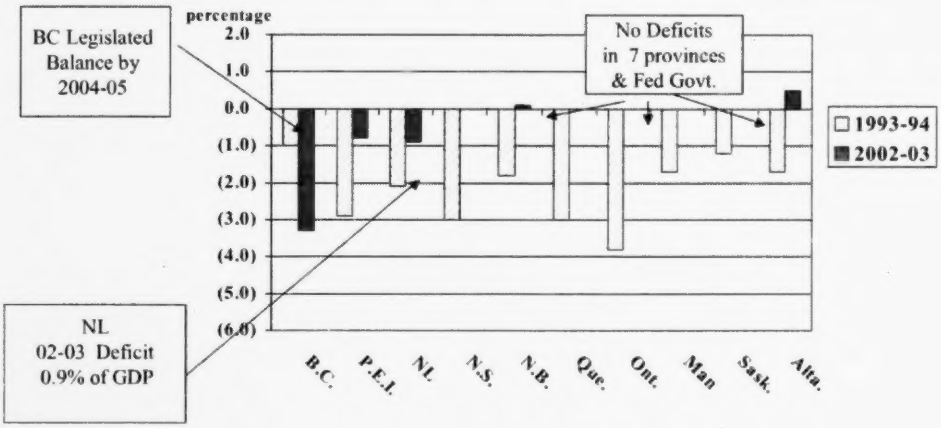
iii) **Increased expenditure obligations** highlighted by the escalation of health care costs, increases in public sector compensation, new program spending initiatives and the ongoing weight of the significant and increasing debt burden.

While real GDP growth in 2002 climbed to an impressive 8.2 per cent in Newfoundland and Labrador, the consolidated deficit increased to 0.9 per cent of GDP. In contrast Government of Canada recorded GDP growth of 3.3 per cent but had a fiscal surplus.

Deficits in the order of one per cent to three per cent of GDP were the norm in the early 1990s. Apart from Newfoundland and Labrador, only two provinces, B.C. and P.E.I., were budgeting for deficits in 2002 as illustrated in Chart 2-36. B.C., which budgeted for a $4.4 billion deficit in 2002-03, is now budgeting to cut its deficit to $2.3 billion in 2003-04 and is required by legislation to balance its budget in 2004-05. In 2002-03 seven provinces budgeted for a fiscal balance (and a similar picture has subsequently unfolded for 2003-04).

Chart 2-36

Surplus (Deficit) as a percentage of GDP
Provincial Comparison 1993-94 to 2002-03



Source:TD Economics and Budget 2003, Newfoundland & Labrador and calculations by the author.

Three provinces (New Brunswick, Saskatchewan and Manitoba) budgeted to achieve fiscal balance by drawing on their Fiscal Stabilization Funds and at least one other (Quebec) has drawn down on various reserves to eliminate its deficit. This raises the specter of explicit or implicit underlying deficits in seven of the 10 provinces. Unfortunately, unlike some of the other provinces, Newfoundland and Labrador does not have any "rainy day" funds to draw upon and its one-time revenues have been depleted. After the delivery of the provincial budgets for 2003-04, the picture has not changed. (A comparative fiscal outlook reflecting the recent round of provincial budgets is provided in Chapter 3, Exhibit IV.)

After 54 years of confederation, **Newfoundland and Labrador still has a long way to go** to catch up with most other provinces in Canada. Its budgetary deficit has increased in recent years while others are focused on fiscal balance. Its combined debt burden is the highest of all provinces and continues to escalate with no prospect of reduction. While others are cutting taxes, Newfoundland and Labrador's tax effort ranks with the highest and it currently has little practical flexibility to reduce it. Despite favourable, oil-driven GDP performance in recent years, the economic disparity as measured by a number of key indicators remains -- underlined by its ongoing tenth place ranking in personal income and unemployment.

Chapter 3

Financial Outlook for Newfoundland and Labrador

A perspective on the Fiscal Prospects
given the current policy environment

> *Now that our offshore oil industry is poised to generate significant revenues it is more important than ever for mechanisms to be put in place to ensure the Province will be the principal fiscal beneficiary of this industry over the longer term. This is the most practical way for the Province to get access to the financial resources necessary to grow and diversify our economy so we can close the disparity gaps that persist between us and the rest of the country.*
>
> Hon. Joan Marie Aylward
> Minister of Finance and
> President of Treasury Board
> Budget Speech 2003
> March 27, 2003

Financial Outlook - Perceptions

Newfoundland and Labrador is in the midst of a period of strong economic growth with significant petroleum production coming on stream in recent years and more to come in the near future. This recent progress combined with other major new developments just starting or on the horizon, Voisey's Bay and a potential Lower Churchill development, produce a sense of optimism in the financial outlook for the province. One of the most significant factors in this perception is the expectation that as petroleum production accelerates, the province will benefit significantly through increased revenues.

Context of Financial Outlook_

It must be emphasized at the outset that the projections provided in this document are not to be regarded as definitive or predictive as to the actual financial results in any one year. Rather, the analysis is intended to show that the relationship of key issues and the potential trends which could emerge based on certain types of planning assumptions applied to various key variables. It is recognized that there can be a wide variation of opinion on the various assumptions and in many respects nobody knows the exact mixture of circumstances that will actually unfold.

Before reviewing the overall financial outlook for the province, it is pertinent to examine the potential impact of revenues from offshore oil.

Assessing The Potential Revenue Impact of Offshore Oil

The continuing development and expansion of the offshore petroleum sector is expected to be a very significant factor in provincial revenue growth in the near term. A broad range of possibilities could unfold depending on: i) the price of oil; ii) the pace of development of existing discoveries; iii) the mode of development; iv) the level of reserves and recovery rates; v) the nature and extent of new discoveries; and vi) in the longer term, the feasibility of gas production.

The basic fiscal outlook is predicated on the potential revenues from the three existing active projects (Hibernia, Terra Nova and White Rose) and revenue streams have been projected for the full life cycle of these projects to 2023.

Basic Assumptions

The provincial revenue streams include both royalties and corporate income tax from the companies involved in the oil production. The base case for the projection of potential revenues assumes:

i) an oil price of $28 U.S. in 2003 and an average of $24 U.S. throughout the subsequent years of the analysis;

ii) the continuation of the existing royalty regime;

iii) 25 per cent of the projected provincial corporate income tax (CIT) will be attributed to and retained by this province. (This is difficult to predict with accuracy due to the multi-jurisdictional nature of the activities of the large oil companies, the variation in the profitability of their activities and their diverse range of businesses.);

iv) revenue stream projections (which encompass royalties and CIT) are in constant dollars in accordance with base case data provided by the provincial Department of Finance.

v) equalization offset payments under the Atlantic Accord and the application of the "generic solution" under the equalization formula are based on the assumed continuation of the existing policies. (The projected annual benefits to the province from these payments are also based on projections from the provincial Department of Finance. While equalization payments generally can be influenced by a number of external factors, it has been assumed that there will be no significant changes in the relationships amongst these external variables – an "other things being equal" assumption has been used to facilitate the analysis).

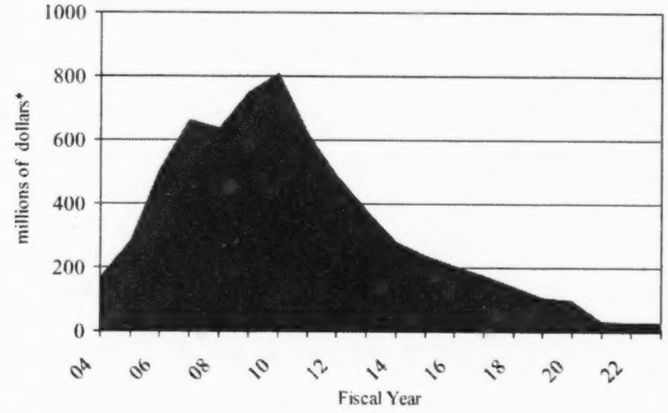
Potential Revenue Streams – Royalties and CIT

Against this background, the potential revenue streams from royalties and provincial corporate tax to Newfoundland and Labrador is as outlined below (before the equalization impact):

Chart 3-1

Provincial Offshore Oil Revenues

Provincial Royalties and Corporate Income Tax



Source: Projections based on the existing projects (Hibernia, Terra Nova and White Rose). Data extracted from projections provided by the provincial Department of Finance.

***Note:** Constant dollars adjusted for inflation.

Under these assumptions combined annual provincial royalty and tax revenues are projected to escalate rapidly in the coming years and peak in 2009-10 at over $800 million. It must be emphasized that these are "gross" revenues, before the decline in equalization is reflected. The most significant aspects of the projections are:

i) the rapid run up in revenues leading up to 2009-10;

ii) the relative short-lived period that annual revenues remain at the peak level;

iii) the rather dramatic decline in revenues which commences around 2011-12.

The significant bump in the revenue stream encompasses the peak revenue generating years for Hibernia, Terra Nova and White Rose. By 2011-12, it is projected that revenues from all three projects would be declining.

It can be argued that subsequent discoveries or major additional developments could dramatically change the shape of this profile. At this stage, however, presentations to the Royal Commission have not provided any basis to support a substantially different revenue profile. Current indications suggest that while subsequent oil developments and discoveries may occur in the future they will likely be significantly less lucrative than the aggregate of the three existing active projects. There is also considerable ongoing uncertainty as to the feasibility of offshore gas development and in any event, it would be well into the future. Accordingly, it is not factored into the revenue analysis. It is in this context that it is felt that an analysis of the three existing projects provides a reasonable basis for understanding the revenue implications of oil for the province in the foreseeable future. While ultimately the shape of the oil revenue bump could be less pointed at the peak, it is nonetheless expected that there will be a significant "revenue bump" and it will be of a relatively limited duration.

Oil Price Sensitivity

It is important to emphasize that the projected revenue streams are highly sensitive to assumptions – one of the most significant is the price of oil. The base case is predicated on a long-term average price of $24.00 U.S. ("constant") per barrel. (A price of $28.00 U.S. is assumed for 2003 only.)

The uncertainty of the outlook for oil prices is underlined by the volatility in recent weeks and months. In March of 2002, oil prices were in the order of $22.00 to $24.00 U.S. a barrel. By the end of 2002 they had run up to the area of $30.00. By the end of February of 2003, with the looming threat of war with Iraq, prices approached $40.00. Following the outbreak of war in March the price dropped below $26.00 U.S. While the current price is in the order of $30.00 U.S., many expect that it will return to the long-term base case assumption of $24.00 U.S. a barrel, or lower, by the end of 2003.

Gross provincial taxes and royalties are very sensitive to oil prices. Sensitivity analysis indicates that a $5.00 U.S. drop in the average price of oil could impact the gross provincial revenues by in the order of 40 per cent -- over $300 million in the peak year. From this province's perspective, this sensitivity is considerably reduced at present since the province's net share is substantially diminished by the equalization impact discussed below.

Net Revenue Growth – Net of the Equalization Impact

The straight application of the equalization formula, absent any offset provisions, would see Newfoundland and Labrador effectively lose one dollar in equalization payments for every one dollar it derived from its offshore oil and gas resources. It is understood that the Royal Commission initiated a separate equalization study so this analysis will not attempt to duplicate it. However, an attempt will be made to illustrate the workings of the formula in relation to these crucial revenues.

The Atlantic Accord signed by the Government of Canada and the Government of Newfoundland and Labrador in 1985, established the basis for joint management and revenue sharing in respect of the offshore oil and gas resources. One of the main purposes articulated in the Accord (stipulated in clause 2(c)) is:

> *to recognize the right of Newfoundland and Labrador to be the principal beneficiaries of the oil and gas off its shores, consistent with the requirement for a strong and united Canada;*

Accordingly, revenue offset provisions were incorporated in the Accord which were intended to protect the province against sharp downturns in equalization entitlements.

These revenue protections included in the Atlantic Accord were intended to provide protection from large equalization losses as a result of rapid economic growth. The formula is complex and it provides two tiers of protection. Its scope in relation to potential equalization declines is very broad and is not confined to revenue changes related to the offshore. Accordingly, it can in some circumstances provide substantial, short-term protection of the revenue base, particularly as revenues are rising rapidly – as they are expected to do in the next few years. It is significant, however, that:

> i) under the formula the level of protection declines over time and with the increase in the fiscal capacity of the province. (The maximum protection was available in the first four years the formula was activated. That period has passed and the level of protection is now declining);
>
> ii) the Atlantic Accord equalization protection is time limited -- it expires in 2011.

Alternative arrangements called the "generic solution" were also implemented by the Government of Canada to ensure that regardless of the technical workings of the other formulae, the effective loss of offshore revenues through the equalization decline would not exceed 70 per cent. This offset formula is less complex than the provisions in the Accord. The province must select which option it wishes to follow each year, prior to December 31st. The timing of this election is a matter of concern to the province since the potential revenue impact can vary quite substantially at different points during the year with the movement of key variables. Often there is insufficient hard financial data available to ensure the appropriate choice is being made in December.

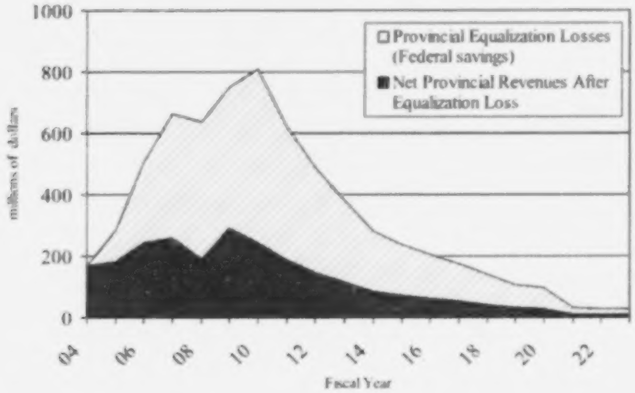
In the base case analysis, the Atlantic Accord is assumed to be the most beneficial of the two formulae in the majority of the early years. By 2009-10, it appears the generic solution will be most beneficial. Beyond 2011-12 it is assumed that the generic solution (the 30 per cent protection) will continue to be available and therefore would be the operative, and only form of revenue protection.

The base case analysis indicates that while, in the aggregate, the net annual "provincial-type revenues" from offshore oil projects peak at some $810 million (with $24 U.S. oil prices), in that year, 2009-10, it is projected that Newfoundland and Labrador's share would be in the order of $240 million to $250 million. The actual timing of the peak and the net provincial share could vary with the application of the formula (the peak in provincial net share could be in the order of $250 million to $300 million and not correspond with the timing of the overall peak in revenues). Nevertheless, for the vast majority of the production cycle, the province's net revenue benefit would be substantially less than the peak level. The net benefit to the province is considerably diminished due to the significant equalization losses as illustrated in Chart 3-2 below:

Chart 3-2

Provincial Offshore Oil Revenues

Before and After Equalization Losses



Source: Projections based on the existing projects (Hibernia, Terra Nova and White Rose). Data extracted from projections provided by the provincial Department of Finance.

***Note:** Constant dollars adjusted for inflation

In contrast, the net annual benefit to the federal treasury from the "provincial" oil revenue stream is estimated to peak at over $550 million in 2009-10 – through its equalization savings. **Over the life of these projects it is projected that the Government of Canada will realize a net financial benefit of some $4.2 billion (in 2002 dollars) through equalization savings compared to a net gain of $2.5 billion for the province. This is an overall split of 62.7 per cent federal and 37.3 per cent provincial**. (It must be emphasized that this is the net effective sharing of provincial royalties and taxes, it does not reflect the federal income tax benefit to the Government of Canada.)

It is important to note that the provincial share is relatively larger in the early years, when revenues are rising and the Atlantic Accord is operative. In fact, the province is expected to be the net beneficiary of virtually all the royalties and provincial corporate income tax available in the very short term as a result of the workings of the Accord. The relative and net sharing of revenues is projected to change significantly in subsequent years as an increasing proportion of oil revenues will effectively be offset through equalization declines. Commencing in 2009-10, and into the future, it is assumed the generic solution would apply with a 70 per cent federal and 30 per cent provincial split in the net "provincial type" revenues. (The Atlantic Accord formula will have phased down and expired in 2011).

The foregoing analysis illustrates a number of key issues:

i) the rapid escalation of provincial oil revenues, the steep decline in revenues following the peak years and the resulting unsustained nature of the revenue "bump";

ii) the short-lived nature of the equalization protection afforded by the Atlantic Accord;

iii) the generic solution will be the main source of oil revenue protection for much of the life of the current projects but it will only provide 30 per cent protection;

iv) *the net revenue "upside" to the province is severely limited by the existing sharing arrangements. In the absence of changes to the existing revenue sharing arrangements, Newfoundland and Labrador will clearly not be the "principal beneficiary" of the offshore oil revenues.*

Overall Sharing of Total Government Revenues

While the foregoing analysis has only focused on provincial royalties and provincial corporate income tax, the total pool of government revenues from offshore oil resources also includes federal corporate income tax (CIT). The financial model for the $24.00 U.S. oil base case, projects potential federal CIT revenues of $8.0 billion over the life of the three projects. Given that with CIT revenues generally, both the flow and the rate of retention or capture by governments, are difficult to predict, a more conservative assumption of $4.0 billion in federal CIT is used for illustrative purposes (a 50 per cent capture rate). Also, it has been assumed that only 25 per cent of the provincial CIT would ultimately be attributed to and captured by Newfoundland and Labrador (other portions could well be reflected in other jurisdictions). On this basis the overall federal/provincial split in government revenues is summarized in Table 3-1:

Table 3-1

Overall Sharing of Total Government Revenues

Federal and Provincial Government Revenues from Offshore Oil

(billions of constant dollars)

	Newfoundland and Labrador	Canada	Total
Royalties	5.7	-	5.7
Provincial Corporate Income Tax	1.0	-	1.0
Federal Corporate Income Tax	-	4.0	4.0
	6.7	4.0	10.7
Equalization Impact	(4.2)	4.2	-
	2.5	8.2	10.7
Overall Revenue Split	**23.4 per cent**	**76.6 per cent**	**100.0 per cent**

In this base case analysis for the three projects, the combined government revenues would total $10.7 billion – the province would realize 23.4 per cent of the total and the net benefit to the Government of Canada would amount to $10.7 billion, or 76.6 per cent.

It is acknowledged that the Government of Canada provided vital financial support at the outset of the Hibernia project and there have been important economic benefits to Newfoundland and Labrador. It is clear, however, that the overall long-term outlook for revenue sharing indicates that the net revenue gains to the province as a result of offshore oil taxes and royalties will pale in significance to the financial benefits to the Government of Canada. **The revenue analysis concludes that the Government of Canada is the "principal beneficiary" of future offshore oil revenues.**

Overall Fiscal Outlook For The Province

The financial outlook of the province has been assessed in the context of: i) underlying deficit position in the order of $400 million (on a consolidated basis) as outlined in Chapter 1; ii) a continuation of a high level of resource development activity, including the development of White Rose and the Voisey's Bay project; iii) ongoing growth trends in major provincial source revenues (particularly sales tax PIT and CIT); iv) stable tax policy; v) a rapid escalation in provincial royalty and CIT revenues from offshore oil production; vi) the counter balancing impact of the existing equalization formula and related offset provisions; and vii) ongoing government expenditure patterns.

One of the objectives of this analysis is to gain some insight as to whether or not the provincial deficit challenge might be self-correcting in the near term.

Approach

One approach to assessing the outlook is to prepare a detailed multi-year forecast based on line-by-line assumptions on key variables. Clearly the array of components to be addressed on both the expenditure and revenue side could lead to significant differences of opinion on the appropriate assumptions to use (from the rate of growth in tax revenues, to the future rate of escalation in wages, health care and education costs, to mention just a few of the high profile variables). The budgetary sensitivity to many such assumptions is quite significant and it is obvious that even modest differences on a range of assumptions can produce significantly different forecast results.

In view of the wide-ranging sensitivities and given that government does not publish multi-year projections, it was decided to take an alternative approach. This approach examines the fiscal outlook based on the current budgetary direction and recent "macro" budgetary trends (as opposed to a line-by-line build-up of a budgetary forecast based on micro assumptions).

Assessment

In essence this approach is meant to address the question: "What is the overall fiscal outlook for the province given (i) recent budgetary trends; (ii) the current economic trends; (iii) the continuation of existing taxation policies, including the expected net impact of oil revenues; and (iv) the continuation of existing spending policies and patterns? The outlook therefore reflects the following:

(i) Recent budgetary trends

Recent budgetary trends show the province on a course of increasing deficits as outlined in Chapter 1, with the 2003-04 budgetary deficit double the prior year's level. On a "go forward" basis, this year's consolidated cash deficit of $287 million, is more in the order of $400 million when one-time revenues and prior year revenue adjustments are excluded. (The underlying accrual deficit is likely in excess of $700 million.) The total public sector debt has increased by an average of $350 million a year over the past four years with an increase of $450 million projected for 2003-04.

(ii) Economic trends

Overall economic trends as measured by GDP and other indicators reflect a very strong performance in recent years. This province has led the nation in economic growth in three of the last five years. Ongoing resource developments point to a continuation of strong economic growth. Ironically, in this period of particularly strong economic growth the fiscal deficit of the province has escalated substantially. Clearly, economic growth does not automatically produce budgetary strength – in fact, Newfoundland and Labrador's recent budgetary trends are in the opposite direction. Obviously, the expenditure and revenue policies of government play a pivotal role in determining the fiscal direction.

(iii)Revenue Trends

The 2003 budget indicates that annual provincial own-source revenues will see an increase in 2003-04 of over $625 million (40 per cent) when compared to 1994-95. It is significant that in that same period federal revenues were relatively flat, therefore, total overall budgetary revenues only increased by $660 million. Equalization of course is declining. Even including the offset payments under the Atlantic Accord, budgeted equalization revenues in 2003-04 are down almost $100 million from the level recorded in 2000-01. This is attributable to a number of factors some of which reflect the positive economic trends in the province. Nonetheless, it underlines the necessity to examine the overall revenue picture when analyzing revenue trends. It is also relevant to consider that the ongoing population decline continues to have a dampening impact on the revenue base.

While total revenues are budgeted to have increased by $660 million since 1994-95, annual expenditures during that same timeframe are budgeted to have increased by $745 million (exclusive of the borrowings for "other entities") and the deficit, measured on the traditional cash basis, increased by some $85 million, up two-thirds from the 1994-95 level. Accordingly while provincial revenue growth is vitally important, it must be assessed in the larger context of: a) the overall revenue growth, particularly as it relates to lackluster federal revenue growth trends; and b) ongoing provincial expenditure growth patterns. Notwithstanding the exceptional economic performance of recent years and significant growth in provincial source revenues, expenditures have outpaced the overall revenue growth and the deficit has increased.

The modest growth in overall revenues is highlighted in the 2003-04 budget for current account. Provincial current account and related revenues are up some $69 million while federal revenues are down $49 million. Therefore, current account revenues in this fiscal year are up only $20 million (0.5 per cent). Gross current account expenditures on the other hand are up $186 million (4.9 per cent). Together these trends have produced a budgetary deficit in excess of $100 million on current account (compared to a current account surplus of almost $65 million recorded in 2002-03).

Clearly oil revenues are becoming an increasingly important dimension of the provincial revenue profile. It is particularly significant to note that the revenue base for 2003-04 described above already includes over $150 million in oil related revenues. The full net benefit of these revenues is expected to flow directly to the province this year due to the various revenue protection mechanisms (short-term as they are) of the Atlantic Accord. In short, the province is already receiving a significant portion of the net revenues it can expect to realize from offshore oil on an annual basis. Therefore, based on the revenue analysis outlined earlier, the net oil revenue upside to the province in the coming years is likely in the order of $100 million to $150 million - important but a far cry from the projected growth in total offshore oil revenues.

Even with the increased oil revenues this year, and with the ongoing economic growth, total revenues are budgeted to be up only 1.8 per cent from 2002-03.

As a final point on revenue trends, it is anticipated that increased CHST funding will augment revenues in the coming years. However, this must be considered in the context of the continuing escalation in health care costs. While incremental funding in this area will be important to help offset mounting health care costs (and prevent the further escalation in budgetary pressures), it is not envisaged that there would be sufficient additional CHST funding to contribute to deficit reduction.

iv) Expenditure trends

Previously (in (iii) above) it was noted that gross expenditures will have increased by $745 million in the period from 1994-95 to the end of the current fiscal year, 2003-04. It is significant to note that the rate of escalation in expenditures has been most pronounced in the last four years. In the period from 1994-95 to 1999-2000, gross expenditures increased by $73 million, or approximately $15 million per year. More recently from 1999-2000 to 2003-04 total expenditures will have increased by $672 million - $168 million a year (an average of 4.4 per cent a year in a four-year timeframe when revenues are projected to have increased by an average of 3.2 per cent). Total expenditures in 2003-04 are budgeted to increase by 5.5 per cent - triple the 1.8 per cent rate of increase budgeted for total revenues. Expenditure growth in recent years has repeatedly outpaced revenue growth.

Conclusions

Assessing the prospects for the provincial budgetary position against this background yields the following conclusions:

i) The "go-forward" deficit should be evaluated from a base starting point of an underlying consolidated cash deficit in excess of $400 million.

ii) Strong industrial development activity will contribute to favourable revenue growth from various provincial sources. But, the overall revenue growth rate will likely be less impressive. This is evidenced by the experience of recent years when despite outstanding GDP growth, total revenue growth failed to keep abreast of expenditure growth. This was underlined in the 2003 budget which includes significant oil revenues but an overall revenue growth of only 1.8 per cent.

iii) There is an incremental upside in oil revenues (beyond the amounts already in the base) but, due to the workings of the Atlantic Accord and the generic solution, it is likely limited to the $100-150 million range in the peak years.

iv) Expenditure growth has outpaced revenue growth. Current spending patterns indicate a continuation of the average expenditure growth trend (4.4 per cent) of the last four years would add more than $180 million a year and in five years would yield an increase in the annual expenditure base of over $900 million (not compounded).

v) If the ongoing expenditure pattern continues, then coupled with the underlying $400 million deficit, the increased annual revenue requirement in five years would be $1.3 billion (not compounded). Accordingly, an average increase of $260 million a year in total revenues would be required to eliminate the deficit in five years (a steady revenue growth rate of 6.5 per cent compared to the average growth in the last four years of 3.5 per cent). There does not appear to be a current basis for such an optimistic revenue growth assumption. A revenue growth rate in the next five years of 3.5 per cent (almost double the 2003-04 growth) would generate an increase in the revenue base of $700 million by year five. If it were assumed that by that time, there might also be an additional $150 million in net oil revenues, the total annual revenue base would be up $850 million from the 2003-04 budgeted level. This would still yield a budgetary shortfall of some $450 million if the current spending patterns continue. (On a similar basis, an annual revenue growth assumption of 4.5 per cent plus the oil revenues would point to a future budgetary deficit in the order of $250 million).

The bottom line is that it is not reasonable to assume that the current budgetary deficit position will be self-correcting over the next five years, given current revenue trends and a continuation of Government's current spending practices. Even with an improvement in revenue growth trends, the analysis points to ongoing budgetary deficits in the order of $250 million to $500 million. This type of deficit trend is not sustainable. Such a trend, with a continuation of existing pension funding requirements would lead to annual increases in the total public sector debt in the order of $400 million to $650 million.

It must be emphasized this analysis is predicated on an assumed continuation of existing spending patterns and a judgment on reasonable revenue trends given recent experience. It is not meant to suggest that the deficit is entrenched and cannot be remedied. The deficit can be eliminated in a reasonable time frame. However, a "status quo" fiscal stance will not provide the solution – it requires a new policy direction. *The province's fiscal position requires firm commitment on the part of government with a clearly articulated broad-based strategy to restore budgetary balance.*

Fiscal Outlook in Perspective:

Newfoundland and Labrador – Ongoing Deficits

The fiscal outlook for Newfoundland and Labrador indicates that in the absence of major policy change, the budgetary deficit which increased substantially in 2003-04, is likely to range in the area of $250 million to $500 million (on a consolidated cash basis) in the coming years. If this were to be allowed to happen, the provincial public sector debt would continue to increase significantly to fund the successive budgetary deficits and pension obligations.

The oil revenues are expected to produce a significant, but relatively short-lived, "bump" in the annual provincial revenue stream, and these revenues could well be on the decline in less than 10 years. The significant benefit of offshore oil revenues will be considerably reduced in the coming years by the equalization impact and the absence of a reasonable and sustained offset arrangement, (despite the stated intent of the Atlantic Accord). The current provisions of the Atlantic Accord and the generic solution are not sufficient to ensure that Newfoundland and Labrador becomes the principal beneficiary of its offshore oil revenues.

It must be emphasized that these projections are based on the assumption "status quo" fiscal policy environment with no changes in tax policy and no new expenditure reduction initiatives or restraint programs. A firm response from government can improve this fiscal outlook.

Canada – Continuing Strong Performance

The financial outlook for Newfoundland and Labrador, as with its recent fiscal history, portrays a stark contrast with the financial outlook for the Government of Canada. On October 30, 2002 the federal Minister of Finance in announcing very favorable fiscal results for the fiscal year ended March 31, 2002 stated:

> *We realized a surplus of $8.9 billion, every single penny of which went to reduce Canada's debt. This is our fifth consecutive budget surplus, the first time this has happened in my lifetime. Moreover, Canada is the only G-7 country expected to achieve a surplus this year.*[29]

The $8.9 billion was up significantly from the budgeted level of $1.5 billion. In that same statement the Minister explained that Canada has *"the most rapidly growing economy of the G-7 countries and that our debt to GDP ratio has declined from its peak of 71 per cent in 1995-96 to 49 per cent, the largest decline recorded by any G-7 country in the same period."*

On February 18, 2003, the federal Minister delivered the Government of Canada's sixth consecutive balanced budget and also committed to fiscal balance "next year and beyond". He reiterated the overall financial strategy as follows:

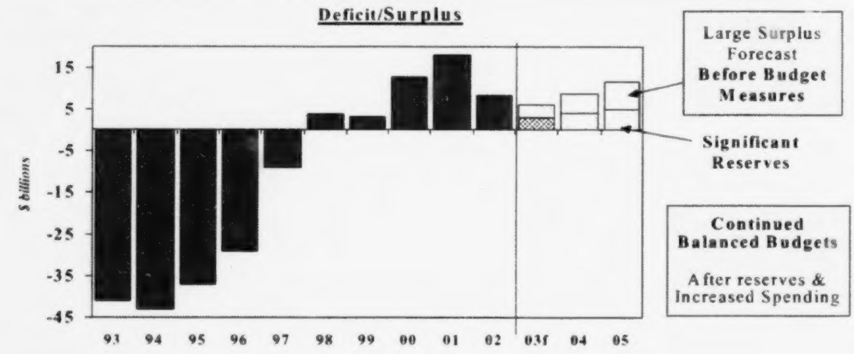
> *Keeping a balanced budget, cutting debt and getting the best value for money are a constant challenge and a constant imperative. These are the bedrock of our fiscal and economic strategy... Canadians remember well the sacrifices that were made to set our country on the right track in the mid-1990's. We will not turn back.* [30]

In the new federal budget, the Government of Canada confirmed the financial policy shift to "full accrual accounting". It indicated that on the full accrual basis, and before the measures introduced in the budget, it was projecting surpluses of $8.8 billion and $11.5 billion respectively for 2003-04 and 2004-05.

The budgetary measures, particularly the spending plans, brought the surpluses back to an even balance in both years. This balance is after the provision of a $3 billion contingency reserve each year plus an "additional degree of economic prudence" of $1 billion in 2003-04 and $2 billion in 2004-05. It might be argued, therefore, that the Government of Canada has an "underlying surplus" of $4 billion to $5 billion in its budget for the next two years.

Chart 3-3

Government of Canada Surplus Outlook
Outlook in Context with Historical Performance
(for years ended March 31)



Source: Government of Canada Department of Finance: Public Accounts 1992-93 to 2000-01, and Budget 2003 dated February 18, 2003.

The budget indicated economic outlook for the nation for 2003 is for real growth of 3.3 per cent and 3.5 per cent growth in 2004.

The Government of Canada's approach to budgeting has been characterized as conservative by a number of private sector observers, because the actual results have consistently exceeded the budgetary targets. In early January 2003 for example, before the 2003 budget, the Conference Board of Canada indicated that the budgetary outlook for each of fiscal 2003 and 2004 would be some $8 billion more favourable each year than the Minister had indicated on his October statement. This was subsequently confirmed to be the case in the February budget.

Provincial Outlook – Most Targeting Fiscal Balance

It is important to recall the earlier section of this document that indicated seven provinces have balanced budget legislation in effect for 2003-04. The eighth province, British Columbia, has legislation which requires it to produce a balanced budget by 2004-05. It is also relevant to note that while seven provinces produced balanced or surplus budgets in 2002-03, four provinces did so by dipping into their "rainy day funds" or fiscal reserves which had been established from prior years' surpluses.

In addition to the varying economic circumstances within individual provinces, there are common factors which continue to influence the budgetary strategy of most provinces:

i) the rapid escalation of health care costs and the extent to which the Government of Canada will provide new funding support in response to the Romanow Commission;

ii) the ongoing desire in most provinces to cut key taxes (particularly PIT and CIT) to improve the competitive environment – in many cases this is a desire to proceed with previously announced tax cuts that were deferred last year due to budgetary pressures; and

iii) a focus on expenditure restraint to preserve fiscal balance and the avoidance of tax increases (except on tobacco, liquor and gasoline).

While there is limited multi-year forecast data available, the following overview by province provides a brief insight into the near-term fiscal outlook of the respective provinces:

EXHIBIT IV

PROVINCIAL BUDGETARY OUTLOOK – 2003-04

Alberta – Budgetary Surpluses: The 2002 budget targeted a surplus of $0.7 billion but at year-end the surplus had climbed to $1.8 billion (due to increased oil and gas revenues). The 2003 budget calls for a surplus of $1.1 billion for 2003-04 from operations and projects continuing surpluses in 2004-05 and 2005-06. Alberta is setting up a "Sustainability Fund" to smooth out volatile resource revenues.

Ontario – Budgetary Surplus: Ontario recorded a surplus of $0.5 billion in 2002-03 and has again budgeted for a surplus of $0.3 billion in 2003-04. It is projecting a balanced position for 2004-05 (after providing for a $1 billion contingency reserve each year). It is also proceeding with its planned series of cuts to personal and corporate income taxes.

New Brunswick – Balanced Budget: The New Brunswick budget for 2003-04 was released early in December of 2002. It reiterated the commitment to fiscal balance and at $7.5 million was the "fourth consecutive budgetary surplus". The budget was balanced by drawing down $104.2 million from the province's "Fiscal Stabilization Fund". The budget provided some reductions in CIT and PIT and increases in tobacco and fuel taxes.

Nova Scotia – Balanced Budget: Nova Scotia balanced its budget in 2002-03 for the first time in 40 years and budgeted for a balanced position in 2003-04. It is also proceeding with its commitment to cut personal income taxes by 10 per cent. (Despite the budgetary balance by its reporting format, its debt increased by $84 million in 2002-03 and is budgeted to rise $118 million in 2003-04.)

Quebec – Balanced Budget: Budgetary surpluses were recorded in 1998-1999 to 2000-2001. A balanced budget was achieved in 2001-02 and again in 2002-03, (with some movement of revenues from year to year). The Government of Quebec tabled its 2003 budget on March 11, 2003 and projected balanced budgets for the next two fiscal years. With strong revenue growth in 2003-04, it is setting up a reserve fund of some $800 million (otherwise it would be targeting a surplus of $800 million). It is then projecting that it will draw down some $500 million from the fund in fiscal 2004-05 to balance the budget in that year (planned revenue smoothing continues).

Manitoba – Balanced Budget: Manitoba publishes a Medium Term Fiscal Framework with its budget, which runs for an additional three years beyond the budget year. In accordance with its balanced budget legislation, the province is projecting surpluses of $10 million a year out to 2005/06. It is projecting drawing down on its "Fiscal Stabilization Fund" in 2003-04 and 2004-05 with amounts of $96 million and $53 million respectively, but projecting it will contribute $56 million to the fund in 2005-06 from its operating results.

Saskatchewan – Balanced Budget: The 2003 budget was its 10th consecutive balanced budget and it provided tax cuts for small business. The province did not draw on the Fiscal Stabilization Fund as it had planned in 2002-03, but projects it will have to draw $400 million and $100 million, respectively, to balance the books in the next two years. It also proceeded with further corporate and personal income tax cuts.

British Columbia – Reduced Deficit – Targeting Balance 04/05: British Columbia had the largest budgetary deficit by far in 2002-03 at $4.4 billion, but is now projecting the actual will come in at $3.8 billion. Government has committed itself by legislation to a balanced position by 2004-05. The new B.C. budget targets a reduction in the deficit to $2.3 million for 2003-04 including a contingency or forecast allowance of $500 million. BC has also reaffirmed its commitment to produce a balanced budget in 2004-05 and is proceeding with an aggressive cost cutting strategy to accomplish it.

P.E.I. – Ongoing Deficits Possible: P.E.I. recorded a deficit of $8 million in 2002-03 and has now budgeted for an $11 million deficit in 2003-04. The province has high tax rates, and ongoing pressure for tax reductions. While it is budgeting for a deficit, P.E.I.'s debt/GDP ratio remains the lowest among the Atlantic provinces and Quebec.

Newfoundland and Labrador – Significant Deficit Increase: The consolidated cash deficit is projected to increase to $287 million in 2003-04, up from $143 million in 2002-03. On an accrual basis of accounting, the 2003 budgetary deficit is $667 million. The province has targeted elimination of this cash-based deficit by 2007-08 based on assumed revenue growth.

GDP Growth and Budgetary Strength - - Not Synonymous

The foregoing overview of the near term fiscal prospects for the Government of Canada and the provinces indicates a continuing surplus position for the national budget and balanced budgets for 7 of the other 9 provinces. This is also consistent with the balanced budget legislation of these provinces. Most provinces and the Government of Canada have come a long way in deficit reduction and elimination since the early 1990's when deficits in the order of 2 to 3 per cent of GDP were not uncommon.

B.C. is targeting to reduce its huge deficit from the actual level of $3.8 billion in 2002-03 to $2.3 billion in 2003-04 and has a legislated requirement for fiscal balance by 2004-05. At least three provinces will balance their budgets this year by drawing down on their "Fiscal Stabilization Funds". In its 2003 budget P.E.I. adopted full accrual accounting and budgeted for a deficit of $11 million, or 0.3 per cent of GDP.

For Newfoundland and Labrador, in the absence of new major budgetary initiatives to address expenditure growth and/or measures to enhance revenues, the fiscal trends point to ongoing deficits and an escalation in its debt burden. The fiscal outlook for the province indicates that the problem is not self-correcting – even with its favourable industrial development environment.

The prospect of ongoing large deficits in Newfoundland and Labrador remains "inconsistent" with the trend in most provinces and the national government. It is also "out of sync" with the general perception which might be expected in relation to the province's strong economic performance as measured by GDP.

The unfortunate conclusion of this economic and budgetary analysis is that nation leading growth in GDP and budgetary strength are not synonymous. Newfoundland and Labrador's GDP growth is inflated by oil production which does not produce corresponding net revenue growth and fiscal strength. Having recorded outstanding GDP growth over the past five years, this province confronts the prospect of ongoing deficits at a time when most provinces and the country as a whole are reporting balanced budgets or surpluses. The situation requires a focused, clearly articulated fiscal response strategy by the Government of Newfoundland and Labrador to restore and sustain budgetary balance.

Chapter 4

Financial Issues and Options

The Financial Challenges confronting the province in the near-term and the types of options available to address them

> *We've been paying for the groceries by taking out a second, third*
> *and fourth mortgage on the house – a house in desperate need of repair.*
> *...more of the same will result in one of two things. The house*
> *will either collapse around us or eventually be seized by the banks.*
> *In either case, the kids move out.*
>
> Hon. Neil J. LeBlanc,
> Minister of Finance, Nova Scotia
> *Budget Speech, April 4, 2002*

> *"...governments at all levels must constantly*
> *re-invent themselves"*
>
> *Hon. John Manley,*
> *Minister of Finance, Canada,*
> *The Economic and Fiscal Update, October 30, 2002*

Fiscal Challenges

The significant fiscal challenges confronting Newfoundland and Labrador are readily evident, and in fact, are recurring themes throughout the foregoing fiscal review and outlook:

- Significant budgetary deficit;
- Mounting debt burden;
- Heavy tax burden;
- Ongoing population decline;
- Limited access to offshore oil revenues; and
- Withdrawal of the Government of Canada from key cost-shared arrangements.

Significant Budgetary Deficit

Newfoundland and Labrador's budgetary deficit has increased to $287 million or 1.7 per cent of GDP in 2003-04 ($666 million or four per cent of GDP on an accrual basis) at a time when the Government of Canada and most provinces have reported fiscal balance. The core of the deficit is rooted in constrained growth in revenues and ongoing expenditure pressures in the last several years.

Revenue growth has been slowed by: (i) a decline in population which is estimated to have removed in excess of $200 million from the annual revenue base in federal transfer and provincial own-source revenues; (ii) the move to HST in concert with the Government of Canada and certain other provinces, combined with a partial implementation of planned PIT reductions which dampened the annual revenue base by an estimated $150 million to $200 million; (iii) federal restraint on social transfer payments, particularly CHST grants, to the extent that transfers in 2003-04 are substantially below the 1994-95 level.

In the aggregate, these issues alone have impaired core revenue growth to the extent of some $400 million to $500 million. "One-time" revenues have partially offset or delayed the impact of these revenue constraints on the net budgetary position, but, these revenues will be virtually exhausted by the end of 2003-04.

Expenditure growth in Newfoundland and Labrador, like all provinces, has been dominated by pressures in health care in recent years. In this sector expenditures were up over 54 per cent in the 10-year period from 1992-93 to 2002-03. While this rate of growth is in line with the national trend, it is more than triple the growth of government's overall program spending in the same period. Health expenditures in total were up over $350 million in the five years ended March 31, 2003. In addition, in the last two years significant compensation agreements with the provincial public sector employees have added in excess of $350 million to the annual expenditure budget. While it is recognized that there is an overlap in these expenditure components, on a combined basis they likely constitute incremental expenditure pressures of some $500 million beyond the base level five years ago.

Debt service costs constitute a significant ongoing obligation and a huge constraint on fiscal flexibility. Despite significant reductions in interest rates in recent years, debt service costs total in the order of $590 million annually, or 14.6 per cent of total revenues.

The financial outlook indicates that with a "status quo" policy environment, the budgetary deficits on a "go-forward" basis could well be in the range of $250 million to $500 million. Unfortunately, the budgetary shortfall does not appear to be self-correcting, even with the increased revenues from the province's non-renewable offshore oil resources.

Mounting Debt Burden

The provincial public sector debt totaled $7.9 billion at March 31, 2003, and is budgeted to increase by $450 million to more than $8.3 billion in the current fiscal year. This level of funded debt, combined with unfunded pension obligations in excess of $3.4 billion, yields a projected combined debt burden approaching $12 billion by March 31, 2004.

The comparative indicator of "taxpayer supported debt" per capita indicates that Newfoundland and Labrador is second highest among the provinces in funded debt. At a projected level of $13,000 per capita as of March 31, 2003, it is approximately 39 per cent above the all-province average. However, this province has by far the largest unfunded pension liability on a relative basis (about $6,500 per capita) which, combined with the funded debt obligations (taxpayer supported debt) yields the highest combined per capita debt burden of any province at $19,500 per capita.

The financial outlook indicates that, in the absence of a new fiscal policy response from government, the province's direct debt load could continue to increase by $450 million or more a year in the coming years, with the ongoing requirements to fund deficits and retire pension obligations.

Heavy Tax Burden

Newfoundland and Labrador has the third highest combined tax burden according to the comparative tax effort index of the Government of Canada – 13.8 per cent above the national average while the neighboring provinces of Nova Scotia and New Brunswick are just slightly above the national average at 0.2 per cent and 1.8 per cent, respectively. The tax burden also needs to be considered in the context of the unemployment rate, which is the highest in Canada, at double the national average, and the per capita income which is the lowest, at 23 per cent below the national average.

The challenge of the high tax burden is being exacerbated each year as successive budgets in other provinces reduce key provincial taxes – particularly personal income tax and corporate income taxes. In line with a competitive trend across the country, Nova Scotia and New Brunswick both provided tax reduction measures in their recent budgets. Newfoundland and Labrador did not, and in fact, previously announced personal income tax reduction measures remain deferred. With the ongoing trend, this province's already troublesome relative tax position could continue to become less competitive each year.

Ongoing Population Decline

The provincial population is now estimated to have declined by over 60,000 people, more than 10 per cent in the 10 years from 1992 to 2002 – A problem of a nature and magnitude encountered by no other province. (The national population is estimated to have increased by more than 10 per cent in the same period)

The impact goes beyond the decline in revenues previously estimated at over $200 million. It effectively means that the proportionate cost of providing public services and infrastructure has increased significantly. Costs of providing government services don't go down proportionately when the population declines – 10 per cent of the roads don't close when 10 per cent of the people leave. Per capita costs rise. Further population declines are projected in the coming years.

Conversely other parts of the country have enjoyed population growth. They have benefited from revenue gains (direct and indirect) but have not necessarily had pro rata cost increases. The net result of these divergent population trends of course, is that per capita expenditures and indeed per capita debt have continued to become proportionately higher in Newfoundland and Labrador relative to other parts of the country. This challenge is made all the more troublesome by virtue of the dispersed, rural population base which is more costly to serve in many respects than urban centers.

Limited access to offshore oil revenues

Gross revenues from the important offshore oil projects are already increasing substantially and could run up from the 2003 budgeted level of more than $150 million to over $800 million by 2009-10. However, current projections indicate that these resources will produce a relatively short-lived "revenue bump" which will begin to decline steeply by 2011-12.

It is acknowledged that offset payments (under the Atlantic Accord) could provide the province with a favourable percentage of the total revenues in the early years. But, these are the years of relatively low overall revenues due to the project investment recovery nature of the government royalty and regimes. By the time the combined current projects reach peak revenues in 2009-10, the province's net annual share will have declined to 30 per cent of provincial type revenues. (The Government of Canada will effectively realize a net gain equivalent to 70 per cent of the provincial type revenues plus its federal corporate income tax.) Accordingly, current trends indicate that the vast majority of the net benefits from provincial-type revenues are projected to flow to the Government of Canada through reduced equalization expenditures.

The bottom line of the multi-year future projections suggests that these non-renewable oil resources could well be depleted in the years ahead and not contribute to a material lasting improvement in the financial position or fiscal flexibility of the province.

It should be noted as well that under the formulae, the relative benefits of the Atlantic Accord are already declining and the revenue arrangements in the Accord will expire by 2011. The generic solution, which provides the 30 per cent protection, is part of the federal/provincial fiscal arrangements, which are subject to negotiation and renewal every five years – at this point even the existing formula is not guaranteed beyond the current term.

Withdrawal of the Government of Canada from Traditional Cost-Shared Programs

In addition to the challenge which federal spending restraint on social transfers has presented to the growth in core revenues, the failure to renew traditional regional economic development cost-sharing agreements has presented a further dimension to the range of fiscal challenges confronting the province.

For decades, the Government of Canada has joined with the Government of Newfoundland and Labrador in successive cost-shared agreements – most recently through the Canada – Newfoundland and Labrador Comprehensive Development Agreement (CEDA) and a range of initiatives undertaken in cooperation with ACOA. These have provided a vitally important boost to the rural economy. While important progress has been achieved, much remains to be done to strengthen and diversify the economic base. The Government of Canada's withdrawal from this area of funding is creating a major void in the support for investment in regional economic development – additional pressure on the province's fiscal position.

Addressing the Challenges

In many respects the overall weight of the challenges outlined above were reflected in the 2003 budget and some of the analysis which followed it. TD Economics offered some suggestions as to an approach it felt government might wish to consider:

> *...Down the road, the government might consider legislating firm multi-year deficit-reduction targets to ensure that it eliminates its deficit by fiscal 2007-08. Moreover,*

> *efforts to re-allocate government spending from areas of low priority would help to free up some much-needed fiscal room to address areas of high priority.*[31]

The BMO Financial Group also analyzed the significant financial challenges explained previously. It then concluded with a summary of its view of types of alternatives available to government:

> *Given its fiscal predicament, policymakers in the province may have to consider a number of difficult initiatives, including: some form of expenditure controls, negotiations with the federal government to amend the equalization formula to enable the province to keep a larger share of its oil revenues; and, potentially, re-negotiation of public sector pension agreements so as to reduce its pension liabilities.*[32]

It is perhaps not difficult to identify a consensus on the nature of the various fiscal and economic challenges confronting Newfoundland and Labrador. The overriding challenge of course is the need to develop a response to these issues which is both constructive and realistic and can accelerate the pace of the province's progress -- an approach which will narrow, and eventually close the gaps between Newfoundland and Labrador and most other provinces on so many economic and fiscal measures.

The requisite fiscal targets which emerge from the analysis are perhaps as obvious as the challenges. They are rooted in the need for focus on three fundamentals; the deficit, the debt and the tax burden. The ultimate difficulty centers around the nature of the options available to address the fiscal issue.

Fiscal Targets

Given the magnitude of the fiscal challenges confronting the province as previously outlined, regardless of the indicators and measures selected, there should be three fundamental nea- term fiscal targets – in fact they are fiscal imperatives:

(i) Balance the Budget.
(ii) Stop the escalation of debt.
(iii) Stop the deterioration in the relative tax position.

Reducing the debt burden, reducing the tax burden and improving the capital infrastructure and services available to the people are also important indisputable goals for Newfoundland and Labrador to advance from the "bottom of the ladder" of Canadian provinces. However, from a fiscal perspective, the first order of business must be to achieve fiscal balance – eliminate the deficit and stop the growth in debt and at least "hold" our own in relative tax standing.

The challenges are significant and likely beyond the potential of being practically overcome in a year or two. However, the initial focus period should be short enough to maintain government's commitment and accountability. The objective should be the restoration of fiscal balance and debt stability within the period of a normal government mandate – four years. This is consistent with the timeframe suggested in the 2003 budget. The ultimate objective should be to eliminate the full accrual deficit of $666 million.

The short-term targets must focus on the relative tax position and measures being taken by other provinces to enhance their relative tax positions – particularly in the areas of personal and corporate income tax. Government's fiscal targets need to ensure: (i) that there is no further deterioration in its relative tax standing; and (ii) in the longer-term begin to reduce the gap. Failure to address these objectives will potentially fuel the forces of out-migration and be a deterrent to the corporate investment so necessary for economic progress.

For the longer term, balancing the budget, capping the debt and "holding our own" on taxes is not enough. Such a strategy, while important would clearly not be considered "moving up from the bottom of the Canadian ladder". Government should then set its sights on preserving the budgetary balance, closing the tax gaps and reducing the overall debt position.

Financial Ratios

While the prime targets and the principle focus should be on: (i) deficit elimination; (ii) debt control; and (iii) preservation/enhancement of its relative tax position, government may wish to consider additional targets based on improving the province's relative fiscal position as measured by key indicators.

At the outset, it is noted that a range of targets based on a number of ratios could prove to be misleading or distracting from the required fiscal focus. For example, targets based on GDP can yield distorted results given the huge impacts of oil revenues. Similarly, targets based on per capita measures can lead to distortions based on divergent population trends.

The "debt to GDP ratio" is frequently used as a key reference point for evaluating overall fiscal and economic progress and it is one of the more commonly used reference points by the credit rating agencies. Yet a key element of the ratio, GDP, is outside government's direct control. Furthermore, GDP improvement does not automatically yield proportionate fiscal gains, particularly when the economic growth is attributable to oil revenues.

Newfoundland and Labrador's ratio (combined taxpayer supported debt plus unfunded liabilities) at March 31, 2003 was projected by DBRS to total 66.7 per cent, which is down from over 80 per cent in the last five years. But at this level this province remains more than double the all-provinces' average of 32.0 per cent (as estimated by DBRS).

It is good to see this province's ratio decline over the past five years. The improvement is driven primarily by the oil related GDP growth as in the same period the provincial public sector debt increased by $1.8 billion, a major ongoing fiscal challenge. In many respects GDP growth will continue to be driven by resource development – particularly oil production and oil prices. While volatility can be expected, there should be substantial growth in GDP in the coming years and this ratio could continue to improve.

In addressing the debt to GDP ratio government's fiscal focus should be on the debt component. Ongoing GDP growth coupled with a "hold the line" strategy on debt could produce a significant improvement in the debt to GDP in coming years. This could significantly reduce the gap in this province relative to the next highest provinces – Quebec is currently second at 58.4 per cent and Nova Scotia at 50.7 per cent by DBRS estimates.)

Newfoundland and Labrador could consider targets which would i) maintain the continuing decline in combined debt to GDP ratio and ii) reduce the gap of almost 35 per cent between this province's ratio at March 31, 2003 and the all-province average.

Other financial ratios used in establishing fiscal targets include; the "Deficit to GDP" (currently estimated at 1.7 per cent based on the consolidated cash deficit of 2003-04) and the "Deficit to total revenues" (currently estimated at 7.0 per cent based on the budgeted consolidated cash deficit of 2003-04). Again, the focus needs to be on the fiscal fundamentals – eliminate the deficit in four years and thereby bring both ratios to zero.

A Balanced Approach — Two Dimensions

The fiscal targets appear distant from today's realities. The fiscal challenges are significant and they have evolved over a long period of time. They are rooted in issues within the province as well as in areas of national policy

The potential components of an approach to improve the financial prospects for Newfoundland and Labrador should include a combination of shared objectives and firm commitments by both the Government of Newfoundland and Labrador and the Government of Canada. Accordingly, the analysis points to two fundamental dimensions of lasting fiscal progress for Newfoundland and Labrador:

The Provincial Dimension:

i) **Fiscal Management Renewal** which incorporates uniform up-to-date and consistent budgeting and accounting methods, balanced budget legislation and rolling multi-year financial projections.

ii) **Fiscal Recovery Strategy** based on a firm commitment to balance the budget leading to a clear plan with new budgetary measures focused on the elimination of the deficit within the next four years.

The Federal Dimension:

i) **Renewed Oil Revenue Sharing and Fiscal Transfer Arrangements** to ensure that the province is the true "principal beneficiary" from its non-renewable offshore oil revenues (through amendments to the Atlantic Accord); to revert to the 10 province standard for calculating equalization and to provide reasonable accommodation within the equalization and CHST programs for significant population declines.

ii) **Revitalized Federal/Provincial Agreements** including ongoing infrastructure development and upgrading, as well as a renewal of financial support for regional economic development.

(The CHST arrangements were revised somewhat during the course of the preparation of this analysis. The details and impact of the new arrangements were unfolding as this report was being finalized; accordingly no assessment has been provided. Nonetheless it is clear that the arrangements should be modified to provide reasonable accommodation in the event of significant population declines.)

The combination of a focused provincial fiscal strategy, combined with revitalized resource revenue sharing, equalization and federal funding arrangements would enable Newfoundland and Labrador to achieve its fundamental fiscal targets in the coming years and begin to advance from its historically unfavourable ranking on so many economic and fiscal indicators.

The Provincial Dimension

Fiscal Management Renewal

In recent years, the provincial government has been criticized by the Auditor General and others for its various reporting methods and the difficulties they present in terms of comprehensive disclosure, performance measurement and accountability. Furthermore the themes of accountability, transparency, fiscal balance and progress to the adoption of new accounting standards are all prevalent throughout most recent provincial budgets as well as the 2003 budget of the Government of Canada.

It is against this backgound that it is recommended the Government of Newfoundland and Labrador consider launching a full-scale fiscal management renewal strategy which would include:

i) *The transition to a single method of reporting* based on the accrual method of accounting as recommended by the Auditor General and the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. It should discontinue the modified cash basis of budgetary reporting.

ii) *A commitment to balance the budget within four years* – a focused period to introduce the necessary policy changes to eradicate the underlying deficit.

iii) *The introduction of "balanced budget legislation*", following an assessment of the practices and experience of the eight provinces that already have such legislation in place. The specifics of the legislation may not be as important as the establishment of the overriding principles to reinforce the commitment to fiscal responsibility.

iv) *The tabling of a rolling three or four year financial plan annually*, which would clearly reflect the full and ongoing fiscal impact of multi-year trends and obligations such as phased tax changes, multi-year collective agreements, and place the short-term impact of one-time expenditures and revenues in the appropriate perspective.

v) *The expansion of the scope of budgetary reporting* (implicit in (i) above) to encompass the entire financial position of key agencies including the deficits, if any, of hospitals and school boards.

Such a revitalized approach to financial management would enhance accountability, bring clear focus and facilitate the ongoing evaluation of this province's progress relative to the other provinces. It should no longer be necessary to ask "What is the real financial position of the province?"

Elements of Fiscal Recovery

In many respects, the "fiscal management renewal" represents the easiest element of the equation. The identification of the appropriate collection of measures and policy initiatives to tackle the deficit i.e. the "fiscal recovery strategy" is clearly the most difficult.

Eliminating an underlying deficit of some $400 million (or more than $700 million on an accrual basis), presents an enormous challenge in the short-term. While there is important revenue momentum fuelled by offshore oil production which will narrow the deficit gap somewhat in the coming years, the net gain to contribute to deficit reduction will be significantly diminished by the equalization impact. Further important policy initiatives are required.

There is no obvious or easy combination of expenditure reductions which would yield annualized cost savings in the order of $300 million to $400 million per year. Neither is there a range of palatable taxation options to generate new revenues of that magnitude.

The magnitude of the budgetary challenge extends far beyond what some might consider the obvious first areas for attention: cuts in government travel, entertainment, advertising, consulting, reductions on overtime and reductions in grants to business and private agencies. These areas are undoubtedly being addressed on an ongoing basis and further cuts should form part of a comprehensive fiscal recovery strategy. However, even significant cuts in these areas only scratch the surface of the fiscal challenge.

In Newfoundland and Labrador, as in most Canadian provinces, some 60 per cent of program spending relates to the salaries and benefits of public employees in some form or another.

Furthermore, the "social sector" component of the budget, which encompasses Health and Community Services, education and youth services and public safety and security, accounts for 71 per cent of the entire budget. The "general government" and the "resource" sectors together account for just over 15 per cent with the balance allocated to debt costs. It follows, therefore, that a substantial expenditure reduction program would likely touch many of the most sensitive social program areas. In that regard it should be noted that the entire resource sector accounts for only 4.4 per cent of budgetary expenditures.

Expenditure Review

Over the years, Newfoundland and Labrador has had considerable experience in assessing the types of harsh measures required to eradicate a substantial deficit. In 1991, the array of measures instituted to address the unprecedented $347 million deficit included:

- Government-wide reductions in salary and operating budgets, wage freezes, deferrals of negotiated increases and reopening collective agreements to achieve savings;
- Layoffs of 1,300 permanent, 350 part-time and 350 seasonal employees (10 per cent reduction in management and executive positions);
- Rationalization of health care including the closure of 360 acute care hospital beds;
- Reduced funding for community colleges, institutions and institutional schools and frozen grants for school boards;
- Discontinuation of MCP coverage of various procedures and services;

- Freeze or reduction in funding of most government agencies as well as a reduction or elimination of a range of programs;
- Reduction in the numbers of police officers;
- Reduced funding for the MUN Faculty of Medicine;
- Reduced ferry services;
- Non-reinstatement of teaching positions eliminated by declining enrollment;

Following the implementation of these measures in the early nineties, Government proceeded with an ongoing process of program review and continuing restraint through to the mid to late-nineties.

The population decline has added a complex and troublesome facet to the fiscal challenge. As the Government of Newfoundland and Labrador assesses its place in Canada, it must address the fact that over 10 per cent of the population has moved elsewhere in the last 10 years. The province's revenue base and, to a degree, its economic base, have been impacted accordingly. Just as a business must downsize its operations if its resource is depleted or its customer-base declines, government must contemplate further downsizing its programs and overhead structure to correspond appropriately to its reduced population and sustainable revenue base – a grim reality, of a proportion that no other province has been compelled to confront. It is noted, however, that in the current budget for fiscal 2003-04, government's total expenditures are budgeted to increase by 5.5 per cent while its total revenues are budgeted to be up only 1.8 per cent. Clearly the expenditure growth pattern requires attention.

The expenditure sensitivities are obvious from a simple review of the province's annual estimates. However, it is not constructive to list an arbitrary range of expenditure reduction options in isolation of an indepth assessment of how program delivery might be modified to achieve the overall policy objectives, at less cost with least disruption.

An effective budgetary renewal strategy will require input from all departments and agencies encompassing a comprehensive analytical review; prioritizing programs and services; revised organization structures and program delivery methods to meet the service objectives more efficiently and at a lower cost. It should not be a "slash and burn strategy". Some of the important changes will require considerable thought, others may take two or three years to implement fully, and may require upfront one-time costs. Clearly, the strategy will need to be planned and communicated properly.

Particular focus should be centred on overhead reductions, areas where the cost of program delivery appears relatively high compared to other provinces and, of course, those areas which, following an up-to-date careful review in the current environment, are deemed to have declined in relative priority.

A common thread in many government restraint programs is the "signal from the top" -- a high profile reduction in government overhead, departmental reorganization, consolidation and a reduction in the size of Cabinet. In this regard it is noted that in recent years there has been considerable downsizing in the size of the cabinet (and departmental consolidation) in Saskatchewan, New Brunswick and Nova Scotia as they addressed their budgetary challenges.

The overriding objective of course is to secure fiscal progress in a manner which is not retrogressive to the province's place in Canada – a difficult tug-o-war.

The practical options to generate significant increases in provincial taxation are no more palatable than the major expenditure options.

Revenue Review

There are a number of taxation options theoretically available to government to address the fiscal shortfall. They are termed theoretical because given the ongoing serious concerns over the existing tax burden: (i) the wisdom of making such changes is questionable at best; and (ii) there is a diminishing return element that comes into play and the full mathematical calculation of a rate change is not always realized. In a practical sense, therefore, the scope for new revenue measures is far more limited than might first appear from a simple list of alternatives. As with the theoretical expenditure options the sensitivity to changes in the main tax sources is obvious from a simple examination of the annual revenue estimates which accompany the budget.

Such an examination clearly indicates that to get the largest revenue gains, the province would need to increase the sales tax and/or personal income tax. Such taxation measures, or any major thrust to increase revenues through higher levels of taxation might well be considered ill-advised at best, and counter productive at worst for a number of reasons:

(i) the province already has the third highest overall tax burden in the country, 13.8 per cent above the national average;

(ii) rather than reverse out-migration pressures, such measures would provide further disincentives to stay in the province or return (the higher level of taxation has been cited as one of the reasons for some people leaving);

(iii)there is ongoing intense competition amongst the provinces to reduce tax rates (except for tobacco, gasoline and liquor);

(iv)tax rates in Canada generally (and Newfoundland and Labrador is among the highest) are considered to be high in relation to the U.S.A.

(v) the heavy tax burden in Newfoundland and Labrador is considered to be a negative, and high risk factor by credit rating agencies and financial analysts.

(vi)increased tax rates would effectively take more money out of a relatively small, private sector, which is struggling to grow, to support public sector expenditures.

A major budgetary thrust to eliminate the deficit through a strategy focused primarily on tax increases would clearly be quite troublesome. It should be noted, however, that ongoing modest adjustments in the range of fees and consumption taxes can be justified to maintain the various elements of the revenue base and prevent erosion by inflation. Other provinces often proceed with a limited package of such adjustments, with the tobacco tax increases being the most popular in recent years. All of the foregoing points to a need for a fiscal strategy which encompasses significant measures exclusive of major provincial tax increases.

Approach to Fiscal Recovery

The ultimate challenge of a provincial budgetary renewal strategy is to develop a plan which advances the fiscal stability objectives but, avoids seriously disruptive retrenchment and retrogressive measures.

It is beyond the scope of this study to suggest a list of specific measures. However any approach to budgetary reassessment should include the following key elements:

- *i) A comprehensive government-wide program review* (including government agencies) to evaluate the effectiveness of the various programs, to reassess relative priorities, and to reduce/eliminate programs of low priority;
- *ii) A concentrated overhead reduction initiative aimed at reducing the overhead costs* of government in recognition of the population decline of over 10 per cent in the last decade (and which is ongoing);
- *iii) A thorough assessment of those program areas where the cost of program delivery exceeds the national average* and where the differential continues to grow. While it is to be expected that some of the differential will be attributed to demographic factors, the analysis should examine the potential areas where the method of program delivery might be modified and the cost structure reduced;
- *iv) Maximize the attrition opportunity*. It is understood that the age profile of the public service indicates that a significant number of public servants will be retiring in the next three to five years. This could present a crucial opportunity to implement the cost reductions in a way that is less harsh than would otherwise be the case;
- *v) An assessment of the cost escalation associated with all the public sector pension plans*. This would include a review of the benefit trends, the rate of escalation in the unfunded liability, and a reassessment of the province's funding strategy to determine if modifications are required;
- *vi) Consideration should be given to regular increase in various fees and certain taxes to preserve the revenue base on a go-forward basis*. But, in so far as possible, increase in sales tax, personal tax and corporate income taxes should be avoided;
- *vii) The potential merits of privatizing various functions* currently provided by government and its crown agencies should be examined. In this regard it may be instructive to explore the experience of other provinces and any successes that have been recorded to date in this generally sensitive area;
- *viii) Leadership from the top* - a demonstration of commitment to the process through high profile expenditure reductions by the Premier and cabinet members.

The fiscal challenges confronting the province are not self-correcting and there are no easy or magic solutions. *Nevertheless, it is recommended that the provincial government firmly commit to the elimination of the deficit and develop a clear broad-based plan which reflects the input of all of its departments and agencies.*

The provincial government must seize the challenge of restoring budgetary balance. In many respects, however, this challenge will be a struggle to preserve the status quo in terms of program delivery and the economic well-being of the people of Newfoundland and Labrador. In order for the province to make meaningful progress in improving its relative position within Canada, and reduce long-standing fiscal and economic disparity gaps, action by the Government of Canada is required.

The Federal Dimension

The Equalization/Resource Revenue Challenge

It is understood that the Royal Commission has initiated a separate study on equalization. Accordingly, the following commentary does not attempt to analyse or address the basic principles nor the technical workings of the formula. It is intended as a general commentary on the net result of the existing equalization structure and some key recommendations that have been put forth for consideration.

In many respects, rightly or wrongly, the equalization formula is the "lightning rod" for fiscal frustration in Newfoundland and Labrador. The province has derived an enormous benefit from equalization over the years. Yet this province has one of the highest tax burdens in Canada. It is continuing to struggle to bring services and infrastructure up to the Canadian norm. It has a crippling debt burden. It continues to experience severe unemployment and income disparities. Yet, it is on the threshold of a steep decline in equalization entitlements.

The Standing Senate Committee on National Finance recently conducted a detailed review on "The Effectiveness of and Possible Improvements to the present Equalization Policy". In its report dated March 2002, it examined a number of options to change the formula including: i) the move to a less complex "macro formula" based on a single variable; ii) modifications to accommodate the different costs of program delivery in various provinces and iii) the removal of non-renewable natural resource revenues from the formula. The Committee rejected each of these options. It explained that in some cases there was profound disagreement among provinces and noted as well that some of the proposals considered could potentially give rise to new divisive inequities.

The Senate Committee did recommend one very important change in the formula -- *It recommended that the Government of Canada move from the present five-province standard to restore the 10-province standard in determining entitlements under the equalization program.* Such a change is considered to be more consistent with the overall objectives of enabling the provinces to provide comparable levels of services at reasonably comparable levels of taxation.

The Senate Committee also recommended that the "equalization floor" be retained to provide temporary protection to equalization recipient provinces against a potential significant downturn in equalization payments in any year relative to the levels paid in the prior year. This element of the program is particularly important to this province in providing incremental short-term protection against a dramatic decline in equalization payments as oil revenues escalate. *Both recommendations, the restoration of the 10-province standard and the floor preservation, are well founded and this report recommends they be adopted.*

There is an additional matter in relation to Newfoundland and Labrador, beyond the general application of the equalization floor as discussed by the Senate Committee. It relates to this province's significant population decline and the impact it has on both equalization and CHST entitlements. These entitlements are calculated on a per capita basis and therefore decline proportionately if the population declines. This can result in sudden changes in entitlements and retroactive recoveries of prior year "overpayments" based on revised population estimates.

It is recommended that the equalization program as well as the CHST be amended to provide reasonable accommodation to enable provinces to adjust to significant population declines.

The Senate Committee struggled with the perplexing problems that the existing equalization formula presents in terms of negating the revenue gains from offshore oil production. It concluded that the issues must be addressed but that the focus should shift from the equalization formula per se. In his preface to the Committee's report, the Chairman of the Senate Committee stated:

> *We acknowledge the exasperating predicament of less wealthy provinces that have begun to reap the benefits from the development of offshore petroleum resources only to see their revenue gains lost by reductions in federal equalization payments. We believe this problem must be addressed within the Offshore Accord – with affected provinces, or through existing or new programs – not through changes to the Equalization formula, which would create a new set of problems.*[33]

The Committee's reluctance to pursue this issue in the context of the broader equalization formula is clearly understandable. This is particularly so, given the complexity of the equalization formula and the multiple consequences of attempting to revise it to address this issue. Nevertheless, the Senate Committee proceeded beyond the general formula discussion to make made two key recommendations on the issue.

> *Recommendation #7. "The government change the Generic Solution so as to increase the share of a province's entitlements that are protected when its non-renewable natural resource revenues increase."*
>
> *Recommendation #8. "The Government should undertake an evaluation of the equalization provision of the Atlantic accords to determine if they have met the intent for which they were designed."*[34]

While revising the overall equalization formula per se represents opening a fiscal Pandora's box, a revised Atlantic Accord offers the potential for a more focused, conceptually valid strategy. It would be working within principals that are already clearly established and understood.

The analysis outlined earlier in this report further underlines the need for the reassessment as recommended by the Senate Committee:

i) The Atlantic Accord provides significant payments to offset the impact of equalization declines in the early years of oil production, when oil revenues are relatively low and just beginning to escalate. The protection diminishes before peak revenues are reached;

ii) The Atlantic Accord formula is only of benefit when the overall resource revenue are rising. (It is of no benefit when revenues are level or declining);

iii) The period of maximum revenue percentage protection under the various phases of the Atlantic Accord formulae has passed and the relative levels of revenue protection afforded by the Accord will now begin to decline. This is occurring well before Newfoundland and Labrador has recorded meaningful fiscal progress and well before the peak annual revenues from the existing oil projects has been attained;

iv) The revenue protection arrangements afforded by the Atlantic Accord expire in 2011;

v) A sharp escalation in oil revenues is projected with a peak in 2009-10, but below the level that would eliminate the provincial entitlement to equalization. At peak production levels it is anticipated that the maximum net gain to the province would be 30 per cent of the net provincial type revenues under the generic solution;

vi) Oil revenues are not projected to be sustained at the peak level. They are projected to decline steeply following the attainment of the peak revenues. Subsequent developments could occur in future years but indications are that the subsequent revenue stream will fall well short of the peak levels expected by 2009-10. In essence the analysis suggests that, in the most likely case, there will be a significant but, relatively short-lived "revenue bump".

vii) Each year, by December 31, the province must select which revenue formula (the Atlantic Accord or the generic solution) to apply for that year. At that time of the year it does not generally have access to sufficient information to ensure it is making the appropriate selection;

viii) By 2007-08, or sooner, the generic solution which provides only 30 per cent net revenue protection is likely to be more beneficial to the province than the Atlantic Accord. Beyond 2010-11, the expiration of the Atlantic Accord formula, it would be the only from of revenue protection – assuming it is continued;

ix) The availability of the generic solution is not guaranteed beyond the regular five year renewal of the fiscal arrangements;

x) It is projected that this province's net overall revenue benefit from the existing projects will in the order of 37 per cent of provincial-type royalties and taxes. (The analysis reflects the benefit of the Atlantic Accord in the early years – then 30 per cent generic solution for the balance, i.e. the majority, of the production periods); and

xi) When federal corporate income tax is included in the total government revenue stream from the existing offshore oil projects, the federal government effectively will be the net beneficiary of 75 to 80 per cent of the government revenues and the province will only receive 20-25 per cent.

The analysis clearly indicates that with the current revenue sharing arrangements Newfoundland and Labrador is not the principal beneficiary of the revenues from the development of it offshore petroleum resources -- the Government of Canada is.

Approach to the Federal Dimension:

In many respects, the essence of an approach to the federal dimension of the key fiscal challenges confronting Newfoundland and Labrador, was effectively set out by the Senate Committee on National Finance.

The framework for an approach, including the key recommendations of the Senate Committee, as well as other issues arising from the analysis may be summarized as follows:

i) The Equalization Formula should be revised to restore the 10-province standard for the determination of equalization entitlements. The equalization floor should be retained to protect against the potential significant decline in annual equalization payments *in any one year. Both equalization and CHST should also be modified to incorporate reasonable accommodation for significant population declines;*

ii) The Generic Solution should be reassessed in the context of providing a greater percentage of protection of a province's entitlements when its non-renewable (oil) resource revenues increase. (*Given the challenges that such an approach might present within the complexities of the equalization formula, it may be most appropriate to achieve this objective through an amended Atlantic Accord*);

iii) The Atlantic Accord revenue offset formulas should be renegotiated by the federal and provincial governments to update them and to reflect adherence to the fundamental principle that Newfoundland and Labrador will be the "principal beneficiary" of its offshore petroleum resources. The time frames within the Accord should be extended to encompass, more appropriately, the pace of development and revenue generation pattern of the current developments – based on actual experience and updated projections. The arrangements within the revised Accord should not expire based on arbitrary dates. Rather the formula should be structured such that the Province continues to receive a proportionately higher share of provincial oil revenues as long as it remains below the Canadian average on key economic and fiscal measures;

iv) *Cost-shared Programs and Support for Infrastructure Development* should be revitalized. The restoration of federal support for regional development to previous levels is important if the province is to hold its own in supporting traditional rural economic development initiatives. Significant additional investment is required if Newfoundland and Labrador is to continue to bring its provincial infrastructure up to the standards enjoyed elsewhere in the country. ▪

A Long Term Investment — Debt Reduction Concept

It is difficult to envisage the prospect of reducing the disproportionately high debt burden of the province at a time when it is continuing to rise and the deficit challenges remains to be resolved.

Offshore oil resources are part of the province's heritage but they are non-renewable resources. Once depleted, these resources will have been removed from the inventory of provincial assets available to benefit future generations. However, in time, with improved sharing arrangements, the dedication of oil revenues to debt reduction would be one way that the exploitation of these non-renewable resources could be invested for the lasting benefit of future generations.

This province's overall combined debt burden (tax payer supported debt and unfunded pension liabilities) at $19,500 per capita is 74.5 per cent above the all-province average per capita debt of $11,200. Yet the prospect of channeling oil revenues to provincial debt reduction does not appear to be a realistic option in the current fiscal environment with the existing revenue sharing framework. *However, in a revised policy framework, both orders of government should give serious consideration to -- a revenue sharing arrangement that would facilitate the investment of at least part of the proceeds from the non-renewable resource* *exploitation, to reduce the highest debt burden in the country for the long-term benefit of future generations.*

Endnotes

[1] 1991 Budget, Newfoundland and Labrador, Hon. Hubert Kitchen, Minister of Finance, March 7, 1991, p.1.

[2] Budget 2003, Newfoundland and Labrador, Hon. Joan Marie Aylward, Minister of Finance, March 27, 2003.

[3] In addressing this issue an effort has been made not to complicate the analysis with a technical accounting debate on the relative merits of modified cash accounting as opposed to accrual accounting. An attempt has been made to assess these obligations within the spirit of the existing accounting structure.

[4] Budget Speech 2001, Province of Newfoundland and Labrador, Hon. Joan Marie Alyward, Minister of Finance, March 22, 2001, p.5.

[5] This analysis does not focus on the year-end expediting of expenditures because, while such measures could effectively adjust the net surplus or deficit from year to year, the author is of the view that, in some cases, a portion of such year-end expenditures could relate to commitments and obligations which arguably should have been included in the budgetary numbers. By way of example, there have been examples when year-end expenditures included funds to pay off hospital and school board deficits. It can be argued that such deficits appropriately belonged in the government deficit of prior periods.

[6] Report of the Auditor General for the year ended March 31, 2002, Province of Newfoundland and Labrador, dated October 28, 2002, p.23.

[7] Report of the Auditor General for the year ended March 31, 2002, Province of Newfoundland and Labrador, dated October 28, 2002, p.1

[8] Data extracted from "The Canadian Federal and Provincial Governments" – 2002 Overview and 2001 Overview dated January 2003 and November 2001, respectively.

[9] Moody's Investor Services, announcement of rating actions related to the upgrading of Newfoundland and Labrador, Prince Edward Island and Saskatchewan, dated May 8, 2002.

[10] Moody's Investor Services, announcement coinciding with the rating agency's annual report on the province dated October 21, 2002.

[11] Standard and Poors, Canadian Ratings, Province of Newfoundland and Labrador, report dated July 9, 2002, p.5 and p.2, respectively.

[12] Standard and Poors, Canadian Ratings, Province of Newfoundland and Labrador, report dated July 9, 2002, p.5 and p.2, respectively.

[13] A synopsis prepared by the author of various comments contained in the "Credit Rating Report" on the Province of Newfoundland and Labrador, issued by Dominion Bond Rating Service Limited on November 19, 2002.

[14] Credit Rating Report on the Province of Newfoundland and Labrador, issued by Dominion Bond Rating Service Limited on November 19, 2002, p.2.

[15] Hon. Joan Marie Aylward, Minister of Finance, Province of Newfoundland and Labrador, Budget Speech 2003, p.39.

[16] Budget Speech 2002, Province of Newfoundland and Labrador, Hon. Joan Marie Aylward, March 21, 2002, p. 2.

[17] Provincial Economic Outlook", p.3, July 4, 2002, T.D. Economics, T.D. Bank Financial Group.

[18] "Energy Promises to Lead in 2003", CIBC World Markets Economics, Provincial Outlook, article by Warren Lovely and Leslie Preston, dated September 26, 2002.

[19] "The 2002 Newfoundland and Labrador Budget", T.D. Bank Financial Group, article by Derek Burleton, Senior Economist, T.D. Economics, dated March 21, 2002.

[20] "Resources Development Brightens Mid-term Prospects", Investment Dealers Association of Canada, Provincial Perspectives, Newfoundland and Labrador, article by Stan Kumagai, Economist, Industry Relations and Representation, dated October 2002.

[21] "The Newfoundland and Labrador 2003/04 Budget … Adjusting to Prosperity", Scotiabank Group, Scotia Economics, article by Caroline Silsbury and Mary Webb, March 27, 2003.

[22] "Large Deficit in Newfoundland's 2003 Budget", Bank of Montreal, "Commentary", article by Tim O'Neill, Chief Economist, Economics Department, March 31,2003.

[23] The 2003 Newfoundland and Labrador Budget, T.D. Bank Financial Group, article by Derek Burleton and Mimi Curtis-Irving, dated March 27, 2003.

[24] Comparative data used in this section are generally drawn from Statistics Canada and other third party sources that have endeavored to adjust the information to make it comparable among provinces. Accordingly, specific indicators in any year for any one jurisdiction may not correspond with individual published reports of that particular jurisdiction. The objective of this section is to provide an indication of relative position of the provinces as opposed to absolute numbers.

[25] This table was compiled by the author from information obtained from provincial government websites. The rate categories do not correspond exactly between provinces and the table and is believed to provide a reasonable indication of the relative rates intended to provide a general indication of corporate rates as opposed to a detailed accurate comparison.

[26] Premier Roger Grimes' Presentation to Standing Senate Committee on National Finance, October 18, 2001, p.5.

[27] Canadian Institute for Health Information Press Release, December 18, 2002.

[28] The data in Charts 2-15, 2-16, and 2-17 are based on data extracted from the CIHI National Health Expenditure Database, and are computed on a somewhat different basis, and therefore do not tie-in with earlier charts which were based on data initially sourced from the Department of Finance of the Government of Canada. While the previous charts focus

on provincial spending, these charts reflect CIHI's computation of private sector funding as well as government funding. Accordingly, they are helpful in placing the public vs. private expenditure components in context.

[29] Hon. John Manley, presentation to the House of Commons Standing Committee on Finance, October 30, 2002, p.12.

[30] Budget Speech 2003, Hon. John Manley, Minister of Finance, Government of Canada, February 18, 2003, p.5.

[31] "The 2003 Newfoundland and Labrador Budget", T.D. Bank Financial Group, article by Derek Burleton and Mimi Curtis Irving, dated March 2003.

[32] Large Deficit in Newfoundland 2003 Budget", Bank of Montreal, "Commentary", article by Tim O'Neill, Chief Economist, Economics Department, March 31, 2003.

[33] "The Effectiveness of and Possible Improvements to the Present Equalization Policy", Report of the Standing Committee on National Defence, dated March 2002; Chairman's Preface, page 1.

[34] "The Effectiveness of and Possible Improvements to the Present Equalization Policy", Report of the Standing Committee on National Finance, dated March 2002,page 26.

Appendix "A"

Terms of Reference

ROYAL COMMISSION ON RENEWING AND STRENGTHENING OUR PLACE IN CANADA

TERMS OF REFERENCE FOR EXTERNAL STUDY

Independent Assessment of and Advice on
the Current State of and Prospects for the Province's Fiscal Position

General

The Royal Commission on Renewing and Strengthening our Place in Canada is initiating a number of research activities and projects as one of the means of obtaining input on matters relevant to its mandate. It is the intent of the Royal Commission that all research be conducted in the spirit of Royal Commission's own Terms of Reference, a copy of which is attached. Further guidance on how research is intended to help fulfill the Commission's mandate is summarized in the Commission's document "Research Principles and Policy."

Purpose

The purpose of this paper is to provide the Royal Commission with an assessment of the state and history of this Province's finances and the overall financial prospects for the Province together with advice on policy options for the province. The paper should strive to provide a balanced assessment that places the current financial position and outlook of the Province in perspective relative to the other provinces and the Government of Canada. Its main tasks are to identify the major financial challenges facing the province and to provide advice on the fiscal options available to the Province to address those challenges. The paper should cover the following main items:

A. OVERVIEW OF THE HISTORY AND CURRENT STATE OF PUBLIC FINANCE

A synopsis of the Historical Overview on Public Finance prepared for the Royal Commission by the provincial Department of Finance, together with an assessment of the Province's current financial position.

This section should cover such items as:

1. A review of the budgetary position and how it has evolved. Highlight key factors influencing the overall position including ongoing expenditure pressures, and changing revenue patterns (e.g., the revenue impact of out migration).
2. A review of the historical trend in the overall debt position of the province relative to other provinces; any issues with respect to currency exposure; key points to note in the recent credit rating assessments; and the extent to which unfunded liabilities are being addressed; (NB: the future debt position will be addressed in a subsequent section).

3. An examination of the various "non-core" budgetary issues that appear to have influenced the net financial position of the province in recent years, including such issues as; i) Term 29 Award; ii) Sales Tax/GST Transitional Assistance; iii) dividends from crown agencies; iv) recoveries of sinking fund surpluses; and v) Labrador Transportation Initiative. Also, an examination of any key areas of financial exposure not reflected in the budgetary position e.g. hospital deficits.
4. An assessment of the financial position of the Province, on a "go-forward" basis. In this regard the paper will quantify significant revenue and expenditure items of a non-recurring nature, as well as significant recent expenditure commitments (e.g. wage settlements) and revenue reductions that may not be fully reflected in historical data. A restated base case financial position will be provided to facilitate future analyses and comparisons.
5. A review of any inconsistencies between the basic "go-forward" financial position of Newfoundland and Labrador and the implicit or expected financial trends of the Province, given the ongoing growth in GDP and the reported budgetary position.

B. RELATIVE FISCAL POSITION

A comparison of the fiscal position of Newfoundland and Labrador relative to the other provinces and the Government of Canada.

This section should cover such items as:

6. A comparison of the overall surplus/deficit position of Newfoundland and Labrador with the other provinces and Canada - the current position as well as the trends in recent years.
7. Comparative levels of taxation and fiscal capacity.
8. Comparative levels of expenditure on various public services e.g. health care, and education.
9. Comparative levels of debt per capita, relative debt servicing costs and credit ratings.
10. Comparative economic indicators; per capita income, unemployment.
11. Comparative GDP per capita and GDP growth trends.
12. A comparison of the relative trends in the GDP position with the trends in the relative fiscal position.
13. An overall assessment of the relative pace of fiscal and economic progress in Newfoundland and Labrador in recent years.

C. FINANCIAL OUTLOOK

An assessment of the financial outlook for Newfoundland and Labrador given its existing base position (as restated) and the existing fiscal framework.

This section should cover such items as:

14. A list of key mid-range, macro assumptions which form the basis of the projections - no tax increases, no service reductions or changes to fiscal arrangements, realistic population trends and most likely industrial development scenarios (White Rose, Voisey's Bay, Lower Churchill? Ben Nevis?).

15. An assessment of the financial prospects for Newfoundland and Labrador, including the projected order of magnitude of the surplus/deficit for the next several years. Highlight key changes, if any, in expected expenditure patterns as well as the projected impact of resource revenues.
16. The projected borrowing requirements and outlook for the trend in the overall debt position of the province.
17. A comparison of projections for Newfoundland and Labrador with those of the Government of Canada (and other provinces if available), to place this province's fiscal outlook in perspective.
18. An overall summary assessment of the fiscal outlook for Newfoundland and Labrador. An examination of the relationship (similarity or contrast) between the trend in the GDP position and the projected trend in the relative fiscal position.

D. FINANCIAL ISSUES AND OPTIONS

An assessment of the major financial challenges confronting Newfoundland and Labrador in the near term and the types of options available to address them.

This section should include:

19. The magnitude of the fiscal challenges confronting the province related to: slow revenue growth, ongoing expenditure pressures, deficit trends, mounting debt and out-migration.
20. Discussion of the types of fiscal targets that the province should consider (e.g., debt-to-revenue ratio, or budgetary deficit as a percentage of revenue or GDP) with rationales and a timeframe for achieving these targets.
21. The types of options; service reductions, user fees, and tax increases which could be considered in order to balance the budget and set the province on a course to fiscal progress.
22. A comparison of the trends and pace of fiscal progress in Newfoundland & Labrador in recent years with the trends and pace of progress in the financial position of the Government of Canada in recent years.
23. Discussion of options to modify the arrangements for federal-transfers to the provincial government (e.g., equalization, CHST).
24. Potential components of a "balanced approach" to securing the financial future of Newfoundland.

Appendix "B"

Summary of Current and Related Revenues

1997-98 TO 2003-04 BUDGET

Newfoundland & Labrador
Current and Related Revenues
1997-98 to 2003-04 Budget
($ millions)

	03-04B	*02-03R*	*01-02R*	*00-01R*	*99-00R*	*98-99R*	*97-98R*
PROVINCIAL:							
Taxation:							
Personal Income Tax	703.0	671.4	611.8	620.9	605.0	545.0	544.0
Sales Tax	597.2	594.0	535.1	489.1	467.2	457.0	445.0
Gasoline Tax	138.0	134.7	130.0	125.0	125.5	121.5	119.0
Payroll Tax	88.0	83.8	81.5	76.5	71.7	68.5	69.6
Tobacco Tax	90.5	79.5	65.5	65.5	65.1	64.0	67.0
Corporate Income Tax	123.4	109.2	54.7	74.8	83.4	82.7	78.1
Natural Resource Taxes & Royalties	153.2	87.5	47.5	60.8	36.0	29.8	26.4
Other	39.4	38.1	34.4	33.2	32.2	30.2	28.3
	1,932.8	1,798.2	1,560.5	1,545.8	1,486.1	1,398.7	1,377.4
General Revenues:							
Newfoundland Liquor Corporation	113.0	93.0	90.0	90.0	96.0	81.2	81.3
Lottery Revenues	108.0	106.0	102.0	95.3	99.3	87.0	78.0
Vehicle & Drivers Licences	55.0	56.3	54.5	53.0	52.0	49.5	50.5
Registry of Deeds Companies & Securities	18.0	18.1	14.9	14.0	12.3	11.9	11.5
Fines & Forfeitures	6.1	5.8	5.3	5.1	5.2	5.7	6.3
Labrador Transportation Initiative	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	27.0	41.1	49.4	33.3	27.0	24.7	30.9
	327.1	320.3	316.1	290.7	291.8	260.0	258.5
Expenditure Programs - Related Rev's							
Recoveries - Sinking Fund Surpluses	37.0	80.6	156.1	36.1	10.4	10.2	11.7
Interest Income	1.7	3.1	4.8	6.8	6.0	13.4	15.9
Other (including Hydro Dividends??)	118.2	145.3	195.9	138.5	145.0	91.0	91.2
	156.9	229.0	356.8	181.4	161.4	114.6	118.8
TOTAL: PROVINCIAL REV'S	**2,416.8**	2,347.5	2,233.4	2,017.9	1,939.3	1,773.3	1,754.7
GOVERNMENT OF CANADA:							
Fiscal Transfer Payments:							
Equalization Payments	1,028.9	1,131.9	1,162.4	1,153.2	1,070.9	1,165.3	995.7
Canada Health & Social Transfer (CHST)	397.7	339.7	331.0	338.7	290.2	275.2	280.0
Sales Tax Transitional Assistance	0.0	0.0	0.0	31.0	63.0	127.0	127.0
Term 29 Award	0.0	0.0	0.0	0.0	0.0	40.0	40.0
Canada Assistance Plan (CAP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PUITTA	0.0	0.0	0.0	0.0	0.0	0.0	(0.7)
Statutory Subsidies	1.7	1.7	1.8	1.8	1.8	1.8	1.8
	1,428.3	1,473.3	1,495.2	1,524.7	1,425.9	1,609.3	1,443.8
Cost Shared Programs:	**71.1**	75.3	81.1	67.5	65.5	60.9	53.9
TOTAL: GOVT OF CANADA REV'S:	**1,499.4**	1,548.6	1,576.3	1,592.2	1,491.4	1,670.2	1,497.7
TOTAL CURRENT & RELATED REV'S	**3,916.3**	3,896.1	3,809.7	3,610.1	3,430.7	3,443.5	3,252.4

Source: Province of Newfoundland and Labrador Annual Estimates 1997-98 to 2003-04 and Budget 2003-04.
(Based on the revised estimates contained in the respective budget documents for the following year, except 2003-04 which reflects the initial budget estimates.)

Appendix "C"

Unfunded Pension Liabilities

Background Information

Background on Pension Liabilities

The province currently has four defined benefit pension plans with 16,500 pensioners and over 32,000 active members. The plans relate to: public service employees, the teachers, the uniformed service employees and the M.H.A.s.

Prior to 1980 there was no pension fund. All pension contributions from teachers and employees were paid into the consolidated revenue fund as general revenue. Payments to pensioners were disbursed as an annual expense with no accounting for the significant and growing financial obligations associated with past and current service.

The province's "Pooled Pension Fund" was only established in 1980 and initially it was based solely on the contributions from employees and teachers through payroll deduction – an important first step, but far from the long-term solution to the issue.

In 1991 a government appointed Commission of Inquiry on Pensions recommended that significant and immediate steps be taken to address the situation. As a result, in recent years, Government has instituted a number of measures including: i) increased contribution rates for both employers and employees; ii) reduction/elimination of some of the more generous benefits; and iii) significant special contributions to the pension funds over and above regular budgetary allocations, aimed at improving the funding level of the plans.

As at March 31, 2002 the net unfunded liabilities of the respective plans were as follows:

Table C-1

Unfunded Pension Liabilities
Government Pension Plans

($ millions)

Plan	Net Unfunded Liability	% Unfunded
Public Service Pension Plan	1,456	53.0%
Teachers Pension Plan	1,706	65.3%
Uniformed Services Pension	190	88.0%
M.H.A. Pension Plan	40	74.1%
	3,392	60.2%

Source: Public Accounts of the Province of Newfoundland and Labrador for the year ended March 31, 2002.

In the case of the **public service pension plan**, Government began making special contributions of $30 million in 1997-98, which have increased over the years to the level of $60 million committed for 2003-04. Government has committed to continue these special payments until the unfunded liability is extinguished.

The funding deficiency of the **teachers' pension plan** is more serious. As recently as 1998 it was projected that in the absence of significant action, the fund's assets would be depleted by 2003 or 2004. The matter was addressed in the collective agreement negotiated with the teachers in 1998-99 and Government committed to make special payments of up to $815 million plus interest over a 14 year period.

By the late 1990s the **uniformed services plan and the M.H.A.s plan** were depleted of funds. Commencing in 2001-02 government committed to make special payments of $20 million and $7.5 million respectively to the plans for five years.

The recent pattern of **special pension funding** arrangements may be summarized as follows:

Table C-2

Special Payments to Pension Funds
Government's Pension Plans

	97-98	98-99	99-00	00-01	01-02	02-03	03-04P
Public Service Pension Plan	30	30	40	40	40	45	60
Teachers Pension Plan		166	166	76	76	76	76
Uniformed Services Pension Plan	-	-	-	-	20	20	20
MHA Pension Plan	-	-	-	-	8	8	8
	30	196	204	116	144	149	164

P = Projected

Source: Public Accounts of the Province of Newfoundland and the Auditor General's Report for the year ended March 31, 2002.

Accounting for Pension Obligations

Since 1997-98 Government has made **special contributions** totaling about $840 million to the pension funds. These contributions have been **"non-budgetary"** and are not reflected in the annual budgetary deficit. The full unfunded pension liability is clearly recorded as a separate component of government's "Total Liabilities" in the audited Consolidated Statement of Financial Position of the province. Since government is borrowing the funds to make these special payments, the net effect is to reduce the unfunded liability (or more correctly – to contain the growth in the unfunded liability) and increase government's "Borrowings". In effect, it moves debt from one category of liability to another on the province's balance sheet.

The interest on the unfunded liability highlights a budgetary accounting issue**.** The implicit annual interest on the unfunded liability was estimated at $242 million in 2001-02 and recorded as an expense in the public accounts. This implicit interest cost was partially offset by the amount by which government's pension contributions during the year exceeded the current service cost ($56 million). Accordingly, a net expense of $186 million overall is reflected in the Public Accounts. These amounts had not been reflected in the provincial budget prior to 2003-04. This is one of the largest areas of difference between the reporting method utilized in preparing the public accounts and that used in the budget over the years. For the first time ever, the 2003 budget included a reconciliation to the accrual method of accounting which incorporated the projected net pension cost accrual. It projected the net pension cost accrual adjustment, including projected interest on the unfunded liabilities, will total $302 million for 2003-04.

Overall, long-term pension liabilities reflect a number of factors including; the employee population base, the benefit structure, wage inflation, interest rate trends and financial market returns. Even with the significant special contributions in recent years, the net unfunded liability of the plans has not declined and, based on recent trends, it is likely that the unfunded obligations are continuing to grow.

Appendix

COLLECTED RESEARCH PAPERS OF THE ROYAL COMMISSION ON RENEWING AND STRENGTHENING OUR PLACE IN CANADA

VOLUME 1

Melvin Baker, *History of Newfoundland and Labrador – Summary Chronology of Events*

Melvin Baker, *Falling into the Canadian Lap: The Confederation of Newfoundland and Canada, 1945-1949*

Miriam Wright, *Newfoundland and Labrador History in Canada, 1949 - 1972*

Peter Gerald Bannister, *The Politics of Cultural Memory: Themes in the History of Newfoundland and Labrador in Canada, 1972-2003*

Stephen May, *The Terms of Union: An Analysis of Their Current Relevance*

Maura Hanrahan, *The Lasting Breach: The Omission of Aboriginal People from the Terms of Union Between Newfoundland and Canada and Its Ongoing Impacts*

Joanne Hussey, *The Changing Role of Women in Newfoundland and Labrador*

Gwynne Dyer, *The Strategic Importance of Newfoundland and Labrador to Canada*

Ross Reid, *We Can Do Better, We Must Do Better*

Gerard Blackmore, *St. John's, Sense of Place: Loss and the Newfoundland and Labrador Spirit*

Ryan Research and Communications, *Provincial Opinion Survey*

POLLARA, *National Poll - Newfoundland and Labrador's Place in Canada*

Volume 2

Roger Gibbins, *Assessing Newfoundland and Labrador's Position on Canada's Evolving Federalism Landscape*

Christopher Dunn, *Federal Representation of the People and Government of Newfoundland and Labrador*

Stephen Tomblin, *Atlantic Region Integration Options*

Denis Stairs, *The Conduct of Canadian Foreign Policy and the Interests of Newfoundland and Labrador*

Donald J. Savoie, *Reviewing Canada's Regional Development Efforts*

Raymond B. Blake, *Regional and Rural Development Strategies in Canada: The Search for Solutions*

Robin Boadway, *Options for Fiscal Federalism*

Volume 3

George A. Rose, *Fisheries Resources and Science in Newfoundland and Labrador: An Independent Assessment*

David Vardy and Eric Dunne, *New Arrangements for Fisheries Management in Newfoundland and Labrador*

Phillip M. Saunders, *Policy Options for the Management and Conservation of Straddling Fisheries Resources*

John C. Crosbie, *The 1985 Canada-Newfoundland Atlantic Accord*

Jason L. Churchill, *Power Politics and Questions of Political Will: A History of Hydroelectric Development in Labrador's Churchill River Basin, 1949-2002*

Volume 4

Ernie Stokes and Robin Somerville, *Newfoundland and Labrador: Towards an Assessment of the Benefits of the Canadian Economic Union*

Craig Brett, *Demographic Trends and Implications for Public Policy*

Lawrence F. Felt, *Small, Isolated and Successful: Lessons from Small, Isolated Societies of the North Atlantic*

Wade Locke and Scott Lynch, *What Does Newfoundland and Labrador Need to Know About the Knowledge-Based Economy to Strengthen Its Place in Canada?*

P. J. Gardiner Institute for Enterprise and Entrepreneurship, *Built to Last: Entrepreneurial Success Stories of Newfoundland and Labrador*

David G. Norris, *The Fiscal Position of Newfoundland and Labrador*

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